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THE BUDGET IN GOVERNMENTS
OF TODAY

THE BUDGET
IN GOVERNMENTS
OF TODAY

BY

A. E. BUCK

INSTITUTE OF PUBLIC ADMINISTRATION
COLUMBIA UNIVERSITY



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PREFACE

A GENERATION or more ago, Leroy-Beaulieu, the French economist, observed that "there are some sciences so lofty and serene that they leave in peace those who are not concerned with them, but finance," he said, "is not one of these; it has a way of taking a terrible revenge upon nations and upon individuals who neglect or despise it." This telling statement carries today a more ominous note, if anything, than it did when first penned. Because of the continuing severity of the world-wide economic depression which began in 1929, governments, no less than individuals, now find that many of their most vexing problems arise from their efforts to finance themselves. These problems have stimulated a renewed interest in the budget—the technique of making both ends meet in financing government—and in the forms and procedures which have been evolved in the budgetary process.

Hence the time may be deemed opportune for a comprehensive study of the budget in the leading governments of the world. In endeavoring to make such a study, I have constantly kept in mind the budgetary usages and needs of the United States. Incidentally, I have discarded some of the American theories of recent years and also the phrases "executive budget," and "legislative budget," as inadequate and often misleading, inasmuch as the budgetary process involves certain definite responsibilities on the part of both the executive and the legislature.

In gathering the raw materials for this book, I have had the coöperation and assistance of many persons, both at home and abroad. While it is possible to mention only a few of them, the services of the others are no less appreciated. I am particularly indebted to Sir Henry Bunbury, comptroller of the

British Post Office, who enabled me to meet many of the important financial officers of the British government; to Mr. Arthur Collins, financial adviser, who introduced me to the leading local finance officers of England and Scotland; to Miss G. Kemball of the Institute of Public Administration of London, who gave me letters of introduction to several officials on the continent; to Dr. jur. Hubertus Grochtmann of Berlin, who assisted me in interpreting German budgetary forms and practices; and to Dr. Aage Sachs of Copenhagen, who supplied me with Danish budgetary materials and gave me introductions to certain Swedish and Norwegian officials. In Canada and in the United States, I have had the help of numerous officials and friends whom I cannot begin to name. I have also had the opportunity of talking with certain Australian economists, when visiting in the United States, about the budgetary methods of their country.

In the actual preparation of this book, I have several debts to acknowledge. I am grateful to Dr. Charles A. Beard and to Professor Arthur W. Macmahon for reading the manuscript and offering many helpful suggestions. My thanks are also due to my associates at the Institute for their assistance and encouragement, especially to Dr. Luther Gulick, who has greatly facilitated my writing of the manuscript by freeing me of many trivialities and who has offered sound advice from time to time; to Mr. Philip H. Cornick, who has read and criticised the manuscript page by page, contributing greatly to its improvement; to Miss Sarah Greer for her unfailing library services; and to Miss Audrey Davies for collecting certain materials and for reading the manuscript before it went to the publishers. Finally a word of appreciation is due to my wife, who has borne with me good-naturedly during the travail of composition and has given valuable help in checking the manuscript and in reading the proofs.

A. E. BUCK.

New York City,
July, 1934.

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THE BUDGET IN GOVERNMENTS
OF TODAY

CHAPTER I

THE BUDGET—A SKETCH OF ITS ORIGIN AND DEVELOPMENT

ALEXANDER HAMILTON declared in No. 30 of *The Federalist* that "Money is, with propriety, considered as the vital principle of the body politic; as that which sustains its life and motion, and enables it to perform its most essential functions." This is a forceful way of saying that modern government must have a regular and adequate supply of money, or the equivalent of money, for its continued operation and maintenance. Otherwise, as Hamilton expressed it, "government must sink into fatal atrophy, and, in a short course of time, perish." In contemplating this indispensable requirement of every government, two important questions may be raised, the second being a corollary of the first. How much money is necessary for a given government? By what process is this money secured and applied to the work of that government?

Broadly speaking, the amount of money required for the support of a particular government depends upon the nature of the society in which that government operates, upon the character of the political system which impels it, and upon the types of functions which it assumes,—given, of course, the geographical setting and the human and natural resources without which no polity can exist. The demands made upon a government for services, which are a measure of its monetary requirements, are in direct relation to the social and economic development of the people living under the government; indeed, these demands may be said to increase in proportion to the general advancement attained by that people in the use of the technical arts and sciences. Obviously, a government

with a backward population does not have the same need for money to carry on its activities as one with a well-developed social and economic order. Again, the monetary requirements of a government are very materially affected by the political system under which it works, especially by the social and economic aims of that system. For example, a government that holds to the traditional policy of limiting its activities mainly to police regulation and law enforcement will require far less money than a government which extends its sphere to include the promotion of social and economic life, and perhaps the operation of essential business and industrial enterprises. This consideration likewise indicates the direct bearing between the nature and extent of governmental functions and the money needed for their support. Finally, the area, climate, physical features, and natural resources of the country over which a government has jurisdiction tend to set limits on the potential wealth which may be drawn upon for the support of public services, although they are largely secondary considerations in determining the monetary requirements of that government. The ability of the people living within the state to utilize these things is of primary importance. Natural resources, for example, amount to nothing apart from the ingenuity of the people and the economic means by which they are exploited.

The process by which money, in whatever amount required, is secured and applied to the support of government varies widely from country to country. But in every instance this process is conditioned by human circumstances, in which political ideas, governmental structures, economic conditions, and social policies are the main considerations. In a democracy, the monetary requirements of the government are not regarded in the same light nor met in the same way as in an autocracy, mainly because the political thinking of the one assumes a point of view which is quite different from that of the other. Thus, a parliamentary government usually raises and spends the money required for its support according to certain rules and regulations which do not entirely fit the pattern and

methods of a government controlled and managed by a dictator. Not only is the financial procedure of a government greatly affected by its political philosophy and general structure, but the standards and conditions of its economic life also exert a modifying influence. Likewise, the economic and social policies which a government attempts to carry out tend to fashion its methods of raising and spending money. A government which fosters individualism, for example, does not pursue the same methods as one that has collectivism as its goal.

Amid all of these variations in the methods of financing governments in different parts of the world and under different forms of political organization, there are still some uniform elements. One of these is a more or less comprehensive plan of the monetary requirements of a government, embracing both income and outgo. Another is a procedure, widely varying in method, by which this plan is formulated, authorized, executed and controlled. A third is the existence of some governmental authority which assumes responsibility for the plan in each of its successive stages. These three elements are, of course, modified in nearly every conceivable manner by historic environment, political ideas, governmental patterns, and the exigencies of human existence. But the fact remains that all modern governments do plan their monetary requirements, to some degree at least, and that this planning is done through their regularly constituted authorities. To this process of financial planning has been applied the term "budget," a word that has been used in this sense for about two centuries.

The origin of the budget, as we shall see later in this chapter, is vitally linked to the development of representative government. This is evident from a brief examination of the growth of parliamentary government, particularly in England and France. Under this type of government the budget has been, and still remains, the means of exercising a certain amount of popular control over the public purse. Since the World War, however, there are evidences, disquieting as they may be, that democracy of the capitalist type as expressed through the long-

established forms of representative government is, temporarily at least, on the decline. Certain publicists (e.g. H. J. Laski, *Democracy in Crisis*, Ch. III) have even become convinced that capitalist democracy is destined soon to be supplanted in many countries of the world by some other type of government. It is not improbable that this type may be a form of authoritarian state, in view of what has recently taken place in several European countries, notably Russia, with its collectivist régime, and Italy, Germany, Austria, and some smaller states, with their fascist systems. But the budget, no doubt, will nevertheless continue as an essential feature of all forms of government, both new and old, although perhaps considerably modified to suit the political ideas and to fit the governmental structures to which it may be applied. Indeed, the budget is destined to become even more necessary to the governments of the future than it is to those of the present. One can hardly imagine a broad system of planned economy for any government which does not have the budget as its foundation. Viewed from this angle, the budget becomes the indispensable tool of the state administrator, whether he be prime minister, president, dictator, or commissar.

This introductory statement brings us to the task which we have undertaken in this volume, that is, a consideration of THE BUDGET IN GOVERNMENTS OF TODAY, including its more important implications, viewed from the standpoint of theory and practice. Although this is an involved subject with wide ramifications in existing politics, we shall attempt to reduce it to simple terms. As a means of enabling the reader more easily to follow the subsequent treatment, we shall, first of all, present briefly the historical and structural bases of the budget.

THE ORIGIN AND ADAPTATION OF THE TERM "BUDGET"

The derivation of the word "budget" is interesting, even from the standpoint of the scientific bent of today. Since the etymology of the word reaches back into the obscurity of the Middle Ages, one is not surprised to find a difference of opinion

among the early authorities as to whether it is of English or French origin. The weight of evidence, however, seems to favor its derivation from the middle English *bouget*, meaning bag or wallet.¹

In England the word "budget" was applied for a long time to the great leather bag in which the King's treasurer or finance minister (later the Chancellor of the Exchequer) carried the documents explaining the country's needs and resources when he went to Parliament. From his opening of this bag before Parliament came the phrase "opening the budget," which is still used today. Gradually the meaning of the word "budget" shifted from the bag itself to the documents which the bag contained; that is, to the financial estimates and the supporting statement of accounts. Then, during the later development of English government, the "budget" took on a much broader meaning: it came to signify certain basic elements in the established system of constitutional rights and to embrace certain rules of procedure under which these rights were maintained and exercised.

The budget, as a recognized term in public finance, is said to have come into common use in England early in the eighteenth century. In 1733 Walpole's financial proposals were satirized in a pamphlet called "The Budget Opened," in which the Prime Minister was presented as a conjuror, the budget being his wallet or bag of tricks. Next, the term "budget" appeared in France. French authorities tell us that it was first found in the financial nomenclature in 1803, when it was mentioned in a law promulgated by the First Republic as a substitute for the phrase "estimates of receipts and expenditures." But it was not commonly used in this sense until after the Restoration, or about 1814. Then other leading countries, following the precedent of England and France, gradually adopted the term "budget" in connection with their financial operations.

¹ This middle English word had many variations, all of which were related, etymologically speaking, to the French *bougette*, a diminutive of the old French *bouge* (small leather bag or wallet). Philologists tell us that this old French word may even be traced back to the Latin *bulga*, which was of Gaulish origin.

But in the United States, this term was not employed to any extent in financial legislation until about the beginning of the present century. Although the framers of the federal constitution undoubtedly knew about the budget, they made no specific mention of it in that document.

DEVELOPMENT OF THE BUDGET IN GOVERNMENT

We shall now observe how the budget has developed in the various countries of the world; how it has influenced the constitutional basis and governmental structure of these countries; and how, in turn, they have affected it, as "the hand is subdued to the dye in which it works." First of all, we shall note the beginning and growth of the budget in England, sketching briefly the historical setting out of which the budget emerged, and indicating the budgetary methods which have become, more or less, a part of the fabric of all other governments. Then we shall examine the development of the budget in France, Germany, Italy, and the other European countries, in the British dominions, Soviet Russia, and the Orient, and finally in the United States and Latin America.

Beginning and Growth of the Budget in England

The budget, as just indicated, originated in England and developed in connection with the evolution of parliamentary government in that country. Historically the English budget system, as we know it today, had its beginning more than seven centuries ago. During this long period it has passed through three rather well-defined stages: (1) parliamentary approval of taxation and other sources of revenue; (2) parliamentary approval of expenditure through appropriation; and (3) annual discussion by Parliament of governmental income and expenditure set up in the form of a financial plan.

The right of Parliament to consent to measures of taxation, before they were imposed by the King, may be traced back to the granting of the Magna Carta by King John in 1215. This great document contained among its various articles the follow-

ing provision: "No scutage or aid shall be imposed in the kingdom, unless by the Common Council of the realm. . . ." By this provision King John bound himself to listen to his barons when imposing certain feudal taxes. Not many years after the Great Charter was signed, the Common Council was transformed into Parliament. Then about 1297 the rule was definitely established that the King must depend for revenue to operate the government upon a previous grant by Parliament. But this rule did not settle the matter; a long struggle between the King and Parliament ensued, which Stubbs has so ably traced in his monumental work on the *Constitutional History of England*. As late as the seventeenth century, the King tried to raise revenue independently of parliamentary action. This notably was the case during the reign of James I and Charles I, the latter losing his head in 1649 largely as a result of his continued defiance of Parliament.

As early as 1344 Parliament demanded of the King that the money granted to him should be spent for the purposes for which it had been asked. This might have been made the starting point of parliamentary appropriation, but Parliament did not follow up the matter even after the King had consented to give an accounting of his expenditures. As a result it was the end of the seventeenth century before parliamentary power to appropriate money for governmental expenditures was fully established. Prior to that time Parliament had often voted taxes and other revenues only after the King made satisfactory answer to certain grievances, usually involving the infringement of common rights, which were presented to him. But the power to control expenditures, and consequently governmental policy, by means of annual appropriations was not regularly exercised by Parliament until after the beginning of the eighteenth century.

Taxation definitely ceased to be a prerogative of the King after the Revolution of 1688 and the passage of the Bill of Rights. It was then that Parliament received full authority to grant or refuse money for the support of the government. At

the same time Parliament began to determine the uses to which this money should be applied and thus definitely to appropriate it. The upshot of this procedure was to remove the financing of the government from the realm of royal caprice and to base it upon a plan which was annually presented to Parliament. It was a long time, however, before the machinery and practice of Parliament and of the executive were developed to the point of producing a financial plan which could be regarded as a modern budget.

Rivalry between the two houses of Parliament in money matters started very early, the House of Commons demanding priority in the consideration of all measures of taxation. By the end of the fourteenth century the House of Lords had conceded this priority to the lower house, though it still maintained the right to change or disapprove such measures when received from the Commons. In 1678 the Commons resolved that the Lords had no right to alter bills for aids and supplies. While the Lords denied this claim in theory, they admitted it in practice. After almost two centuries the houses again clashed when the Lords rejected the paper duties of 1860. The Commons thereupon resolved that they had the sole right of initiative in taxation, and the sole right of determining its manner and measure. To these claims the Lords assented, at least tacitly, agreeing that the Commons should originate all money bills and that they would not amend them. It was also implied in the resolution that the Lords had no right to reject a money bill, but they never agreed to this restriction. Almost immediately, the Commons adopted the practice of consolidating all taxes into one measure, the annual finance bill. This was done on the assumption that the Lords would not dare to upset the financial plan for the year by disapproving this bill. But in 1909 the test came: the Lords rejected the finance bill, because they did not like its imposition of heavier taxes on landed property. The Commons declared this action to be a usurpation of privilege and a breach of the constitution. A great conflict followed between the houses which, after two

general elections, was brought to a close by the parliamentary act of 1911. This act virtually deprived the Lords of the right to reject a money bill. It placed the Commons in supreme control of all financial measures, so far as the two houses were concerned.

Executive authority was originally vested in the King and his personally selected council. But soon after the Revolution of 1688 this authority was transferred to a cabinet responsible to Parliament. Maitland in his *Constitutional History of England* attributes this transition primarily to the fact that England was ruled for a number of years by two German-speaking Kings, George I and George II, who knew very little about English governmental affairs and who were unable to take part in the discussions at council meetings. They therefore absented themselves from these meetings, thus giving the cabinet system a chance to get rooted. This system developed rapidly under Walpole, the first Prime Minister, and in a short time general control of governmental policy was in the hands of the Cabinet. Almost immediately after the close of Walpole's ministry in 1742, the Cabinet became directly responsible to the House of Commons and ordinarily represented the majority party in this body. But not until 1832 was the rule definitely established that the Cabinet must resign or appeal to the country for support in a general election whenever it was defeated by the House of Commons on any major issue, such as an important financial measure.

Almost from its beginning the Cabinet had as one of its main duties the preparation of the annual financial plan for the House of Commons. Responsibility for this plan rested mainly upon the Chancellor of the Exchequer who, as the finance minister of the Cabinet, formulated and presented it to the Commons through the "budget speech." Under this procedure the Cabinet gradually built up its financial prerogatives until it became almost supreme in the case of expenditure, though not quite so powerful in the case of taxation. Today the House of Commons practically accepts the budgetary proposals of the

Cabinet, thus surrendering to this group of its members the powers which it had gained as a body from the King after a long struggle.

But the House of Commons has offset this surrender of powers by providing a system for checking the financial operations of the Cabinet, or executive. For a long time the Commons attempted to control expenditure by placing certain restrictions on the issue of money from the exchequer, rather than by ascertaining how the money had been spent. It really did not know how its grants were expended until after 1861. At that time Gladstone instituted the Public Accounts Committee, appointed by the House of Commons at the beginning of each session, to examine the financial operations of the government and report its findings to the Commons. Five years later the office of Comptroller and Auditor General was established. This officer was made independent of the executive and the departments, being solely responsible to the House of Commons. His main duty was to audit the accounts of the government and to report thereon to the Public Accounts Committee, while a less important duty was to control the issue of money from the exchequer to the treasury for disbursement. This is the system of parliamentary audit in force today.

From this brief account it will be noted that the essential features of the English budget system were determined more by the practical needs of the moment than by any theory of the end to be attained. The need came first, then the action, often very haltingly, and finally the theory to support what had been done. Nevertheless, English budgetary practice has become the model for the parliamentary governments of the world.

Budgetary Development in France

The budget in France, as compared with that in England, is a relatively modern institution. It really began to develop, according to Stourm, in 1789 and passed through its initial stages during the next forty years. The Revolution actually made way for the establishment of the budget system, although

some French authorities maintain that certain fundamentals of the system were recognized long before 1789. Jèze, for example, claims that the right of the States General to vote taxes was definitely established at the beginning of the fifteenth century, but lapsed during the sixteenth century and completely disappeared until the Revolution. Even if this practice had been continued, the unwieldy organization of the States General, the advisory nature of its functions, and the fact that it did not sit except upon summons by the King would have made its control of doubtful value. At any rate, for 175 years prior to 1789 the King alone imposed all taxes.

Immediately upon convening in June, 1789, the National Assembly promulgated a law declaring that thereafter the right to vote taxes should be vested exclusively in the representatives of the nation. This provision has been observed ever since that time, except for a few short lapses during the periods of the First and the Second Empires. It has usually been embodied in the texts of the various French constitutions adopted since 1789.

The right of the representatives of the nation to control expenditure, according to Stourm, was not established immediately after the Revolution, there being some doubt as to just how it should be expressed. The National Assembly was without any precedent to serve as a guide, and it lacked knowledge of the way to establish parliamentary control over expenditure. Hence it did not lay out a plan, nor did it try to establish a budget system. It did attempt, nevertheless, to step in and exercise direct supervision through a committee over the vouchering and payment of accounts, hoping in this way to place an effective check on the executive. But this scheme broke down completely within a short time. By 1814, when the Restoration took place, even the right of popular control over public expenditure had become almost totally obscured and had to be reasserted. The Constitution of 1814 did not mention expenditure in any of its articles, but a law enacted in March, 1817, gave the legislative body the power to appro-

priate public money to the various branches of the government. This law made it possible for the first time to establish a real budget.

Jèze in his *Théorie Générale du Budget* cites several instances, prior to the Revolution, of what he calls periodic comparison of public receipts and expenditures. The most notable of these are Sully's "*état du roi*," prepared around 1600; Colbert's annual estimates during the reign of Louis XIV; and Necker's "*compte rendu*" in 1781, which one of his critics called in derision a cock-and-bull story. These efforts, however, could not be rated as budgets, even at their best. Jèze admits that there were no real budgets during this period, and he also asserts that the absence of the budget was the chief defect of the Napoleonic finances. The French budget system was actually devised and established by the first three ministers of finance under the Restoration, the third and perhaps the most famous of whom, de Villèle, was the author of a series of notable finance ordinances from 1822 to 1827. By 1831 the French budget system had attained its full growth, according to Stourm.

Although Colbert, who was Louis XIV's comptroller general from 1661 to 1683, had somewhat systematized the financial and accounting procedure of the government, it remained for de Villèle to set up the proper foundation for budgetary and accounting procedure. By his series of ordinances he determined the form of the budget document, fixed the fiscal period and the time for the closing of accounts, unified the work of the fiscal offices, determined the form of accounts and the nature of reports to be submitted each year by the ministers to the Cour des Comptes for verification, and defined the annual vote on the budget by divisions of the ministries. Since he had to overcome great opposition in making these reforms, he was able to do so only through the exceptional authority of his position as both Prime Minister and Minister of Finance.

The Cour des Comptes was created under the Napoleonic régime to examine the accounts of spending officers. After the Restoration it became an auxiliary of the legislative power and

has so continued. It is now the independent auditing agency of the accounts of both the national and local governments.

There has been in France, as in England, a struggle between the two houses of Parliament for supremacy in money matters. The National Assembly gave the houses exactly the same legislative powers, with the exception of providing that finance measures should first be introduced in and passed by the Chamber of Deputies. The first serious conflict between the houses arose in 1876 when the Senate restored to the budget certain *crédits* which the Chamber had refused. Gambetta urged that the Senate's changes be rejected, asserting that this was an exercise of initiative which that body did not possess. This clash was settled by compromise and since that time, as we shall explain later, a working arrangement between the two houses has gradually been developed.

In practice the French Ministry is responsible to the Chamber, but the Senate may force it to retire by disapproving its measures. When the Ministry meets with defeat in the Chamber, it has no recourse and must resign. While the constitution provides for the dissolution of the Chamber, this power is no longer exercised. The formulation of the budget rests with the Ministry, the Minister of Finance actually preparing the financial plan for submission to Parliament. Recently a new post was created in the Ministry, the Minister of the Budget, who shares responsibility for the budget with the Minister of Finance. The budgetary proposals, when submitted to Parliament, are examined by the finance committees of the two houses, which are the most powerful of the several standing committees. Parliament is not bound to follow the budget figures submitted by the Ministry, as is the case in England, but is free to make changes in the financial proposals, subject to certain limitations imposed on the action of the Senate.

Evolution of the Budget in Germany

Budgetary development began in Germany about the middle of the nineteenth century, when several German states provided for the examination of expenditures and the approval of

taxes by their representative assemblies. Some authorities, notably Jèze and Neumark, point to earlier evidence of the application of budgetary methods, but these were very rudimentary in character.

Among the early German states, Prussia was the largest and most powerful; through its military prowess, under the leadership of Bismarck, the other states were brought together to form the German Reich. The Prussian constitution of 1850 set up a legislative body called the Landtag, consisting of two houses, and gave it the right to pass on all fiscal measures. These measures were presented first to the lower house, and upon being passed by it were then sent to the upper house, which could only accept or reject them as a whole. But this practice lapsed for a period: during the four years prior to the Austrian war of 1866, Bismarck, acting in the capacity of prime minister, exercised the authority of collecting and spending the revenues of the state on the basis of existing laws, thus suspending for the time being the legislative power of appropriation because the Landtag had refused his requests for military purposes. After the Prussian victory at Sadowa, however, he was able to get the Landtag's approval of his action in overruling its authority. Although this situation never occurred again, it raised a question which remained unsettled as long as the Prussian constitution of 1850 was in force.

When the German Reich was first established in 1871, Bismarck framed its constitution, dictating the first draft to his secretary in one evening, according to popular legend. This constitution provided for a federal government, though not of equal states, for Prussia dominated all the others. But the field of governmental powers was clearly divided between the imperial and state authorities. The imperial government was headed by the Kaiser, who had been King of Prussia up to that time. Its administrative work was directed by the Chancellor who was appointed by the Kaiser, a position held for many years by Bismarck himself. The imperial Parliament consisted of two houses, the Bundesrat, or upper house, and

the Reichstag. The upper house was assumed to represent the states, and the lower, the people. The Bundesrat was the dominating branch of Parliament, nearly all important measures originating in it. If the Reichstag refused to concur with the other house on important measures, it could be dissolved by the Kaiser with the Bundesrat's consent. The Chancellor was not responsible to either house and his subordinates could not be called to account, though the Reichstag was permitted to question them, thus affording its members an opportunity to state their grievances. The Reichstag did not make its authority felt even with respect to the annual voting of the budget, because of the constitutional doctrine that one chamber by failing to vote funds could not abolish or weaken an established agency of government. So when the Reichstag refused to vote an appropriation for an existing service, the executive carried it on just the same out of any money which happened to be available. It was also maintained that the Reichstag could not reduce or take away any existing sources of revenue.

The formulation of the imperial budget was delegated by the Chancellor to the Secretary of Finance, who took the plan before the Bundesrat, where it was fixed and then transmitted to the Reichstag for approval. The Chancellor was required to make a statement to Parliament at the end of each budget year covering the financial transactions of the government. This statement was then audited by the Rechnungshof, the Court of Audit, which was independent of the administration, its officers being appointed for life.

After the collapse of the first German Reich in 1918, a convention which met at Weimar drafted a constitution establishing the framework of the second Reich. But upon the advent of the Hitler government early in 1933, the second Reich virtually passed out of existence. The machinery of the third Reich is being set up along the lines of a party dictatorship, controlled by the National Socialists or Nazis, and utilizing, for the time being at least, the framework of the second Reich. In order to appreciate the changes which have recently been

made, a brief description of the organization of the second Reich is necessary. Although this government was federal in form, the constitution made the central authorities quite powerful by giving them a wide field of exclusive jurisdiction and at the same time allowing them to extend their control over state matters when occasion required. The Hitler government has taken advantage of this constitutional grant to modify the organization of the German states and to curtail their powers to such an extent as to set up a unitary state. The total elimination of the old states is now in progress, and the establishment of administrative districts in their stead is proposed.

The Weimar constitution vested executive authority in a President and a national Cabinet. The President's powers were limited by ministerial responsibility, since his acts had to be approved either by the Chancellor or by one of the ministers. The Chancellor, in effect the prime minister, was appointed by the President. He in turn selected the ministers who, with himself, formed the Cabinet, which remained in power so long as it enjoyed the support of the majority of the Reichstag. Under the Hitler régime, however, the President has become largely a figurehead, and the Cabinet, at least for the present, exercises its authority without any direct responsibility to the Reichstag.¹

Parliament, under the Weimar constitution, consisted of the Reichsrat, or upper house, and the Reichstag. The Reichsrat actually replaced the Bundesrat which had existed under the first Reich; it was made up of ministerial delegates from the fifteen states and three free cities, but was much less important in the legislative scheme than the older Bundesrat. It functioned merely as a preliminary chamber, since measures prepared by the Cabinet went to it first, but its decisions could be overridden by the Reichstag. The latter house, composed of popularly elected members, was the dominant branch of Parliament. Members of the Cabinet had seats in this body

and were required to answer questions. The Cabinet could be overthrown through a vote of lack of confidence by the Reichstag. Shortly after Hitler came into power, Parliament was adjourned for a period of four years in order to give the Nazi government a free hand. During this period, which is presumed to end in 1937, all national laws, including the budgetary authorizations, are to be promulgated by decrees. Early in 1934 the Reichsrat was abolished by a decree, inasmuch as there was no real reason for its existence after the elimination of the German states.

The Weimar constitution created in addition to the two houses of Parliament what has been called "a new instrument of representation," the National Economic Council (Reichswirtschaftsrat). This Council was intended to act as an advisory body to Parliament, the Cabinet being required to put its opinions before the Reichstag; it was also given the right to initiate social or economic measures through the medium of the Cabinet, but these measures had to be passed in the regular manner by Parliament in order to become effective. After prolonged argument as to how it should be constituted, a Provisional Economic Council, consisting of 326 members chosen along vocational lines, was finally set up in 1920. The large size of this body made it unwieldy, and it really never functioned with any degree of success. It is worthy of note, however, that Hitler, immediately upon his accession to power, revived the Council as an advisory body, reducing its membership to sixty.

Under the Weimar constitution, the Cabinet was responsible for the formulation of the national budget, the actual work of assembling the estimates being done by the Minister of Finance. The budget was submitted to the Reichstag, which could decrease or eliminate items in it, or could make increases or add new items with the consent of the Reichsrat. Such action on the part of the Reichstag was not regarded as a lack of confidence in the Cabinet. After the execution of the budget, the Minister of Finance was required to submit to Parliament a statement of his accounts which had been audited by the

¹ Following President von Hindenburg's death on August 2, 1934, Chancellor Hitler temporarily assumed the duties of the presidency.

Rechnungshof, a body similar to that under the first Reich, but with more extensive powers. From this general scheme of budgetary procedure the Hitler government has, for the time being, eliminated the part played by Parliament. As to when and in what form Parliament's rôle will be restored, one cannot say at this time. The Weimar constitution has ceased to operate from a parliamentary standpoint, and may never be revived.

It is difficult to appraise the success of the budgetary methods under the second Reich, since the government was almost constantly faced with financial difficulties and, therefore, never really operated under normal conditions. After 1931 the national authorities, largely as a result of a series of economic emergencies, were unable to follow the established budgetary procedure. The budgets of the national government from 1931 to 1933 were authorized by presidential decrees, rather than by the legislative process outlined under the Weimar constitution.

Status of the Budget in Italy

We now turn to Italy, where the dictatorship under Mussolini seems to have become relatively permanent. After having tried parliamentary government for half a century, Italy has repudiated it. The present régime began in October, 1922, with the Fascist "march on Rome." Immediately, Mussolini took charge of the government under the title of Prime Minister and began to transform the old constitutional system to bring it in line with the ideas of the Fascists. The Grand Council of the Fascist Party was made the policy-determining body of the government, and later it was given legal recognition as such. This step made it possible not only to maintain the dictatorship but also to enforce the policies of the Party.

The constitutional legislative body is retained in form only. The old Senate, because of recent changes in its membership, is now strongly Fascist. Candidates for election to the Chamber of Deputies are at present chosen by the Grand Council from lists submitted by the vocational associations, thus insur-

ing that the membership of this body will be in accord with the Fascist program. Under the new régime, the main function of the Chamber of Deputies is "to keep alive the contact between the public and the administration and in the process to disseminate and interpret for the benefit of the people the essentials of the Fascist policy." As a result, Parliament has become merely an agency for the review of executive decisions. All measures coming before it are in effect government proposals, otherwise they cannot get on its calendar. This means that such measures, if at all important, have been approved by the Fascist Grand Council, with Mussolini in the chair. Executive sponsorship of legislative proposals is therefore carried much farther in the Italian Parliament at the present time than it is in the British House of Commons. And it may be added that Mussolini's position as executive, or "Chief of the Government," is one that he has created for himself after the style of Bismarck. In this position he declares that he is completely free of control by Parliament and responsible only to the King, but in reality the King is little more than "a mere symbol, a flag that blows with the wind." Mussolini appoints the ministers and under-secretaries, who serve at his pleasure. Of the existing thirteen portfolios in the Ministry, Mussolini has himself held as many as six or eight at once, operating them through under-secretaries. To assist the government in its corporate undertakings, the Fascist scheme provides a National Council of Corporations, which in purpose is somewhat akin to the National Economic Council of Germany. The latest indications are that this Council may displace the Chamber of Deputies.

Although opinions differ as to its accomplishments, the new Fascist government may be credited with having systematized the state administration, reduced operating expenses, at least for the time being, and refashioned a cumbersome tax system. It has, in fact, set up a highly centralized administration, leaving very few functions to the local units. While existing taxes are regarded as being exceedingly burdensome, even when com-

pared with other heavily taxed European countries, Mussolini's planning for the economic development of Italy has undoubtedly relieved this situation to some degree. He has succeeded in bringing the national budget nearer into balance than was possible under the financial methods of the old government. Out of his national planning has developed the "corporative state," based upon the idea of state supremacy over the economic and social groups within the country. The state administration rejects the *laissez faire* doctrine and allies itself with private enterprise, thus regulating the economic order and producing a type of planned capitalism. At least this is the aim of the corporative state. Einzig, in his recent book, *The Economic Foundations of Fascism* (p. 25), thinks that the corporative state represents "a new kind of democracy as contrasted with the parliamentary democratic system," since "it entails the elimination or reconciliation of conflicts between various classes of the population," and since "it implies a new conception of the rights and duties of individuals within the state, and a modified conception of the limitations on the use of property and productive factors."

Budgetary Development among Other European States

Turning from France, Germany, and Italy to the other continental European states, we find that while their governments present in detail a variety of forms, they are commonly built around the parliamentary type. At one time or another, however, several of these governments have by force of circumstances become dictatorships. We shall consider first of all the states whose governmental structures have been least affected by the consequences of the World War, namely, Belgium, the Netherlands, the Scandinavian states (Denmark, Sweden, and Norway), and Switzerland.

Belgium adopted French law and administration when it was annexed by France in 1795. Then at the Congress of Vienna, it was united to Holland to form the new kingdom of the Netherlands, but this union lasted only until 1830, when Bel-

gium revolted and declared its independence. It then turned to French political doctrine in setting up the framework of its government in the constitution of 1830, which still continues in force. The French instruments of 1791 and 1830 were mainly followed as models by the Belgian constitution makers, although they manifest considerable respect for the English constitutional system.

In the Belgian Parliament, the Senate is secondary to the Chamber of Representatives, the Ministry being directly responsible to the latter body. The relation of the Ministry to Parliament, particularly in budgetary matters, resembles the English more than the French system. For example, either or both houses of Parliament may be dissolved in case of a disagreement with the executive. The auditing procedure, however, is copied from the French scheme.

After the separation of Belgium from the Netherlands, the constitution of the latter country underwent such great changes as virtually to become a new document. Constitutional government as it exists today in the Netherlands had its beginning in 1848. The government is an hereditary monarchy, in which the sovereign is advised by a Council of State appointed by the Crown. There is a Council of Ministers, the members of which are nominally appointed and dismissed by the Crown, but actually this procedure is somewhat restricted in recent years due to the growth of the parliamentary system. Parliament, called the States General, consists of two chambers, the upper being constitutionally a very weak body. All legislative measures are originated either by the government or by the members of the lower chamber. The budget is presented by the government, in the name of the Crown, to the lower chamber, whose approval is necessary to establish taxes and to authorize expenditures.

In the Scandinavian states, notably Sweden, budgetary development has had a long and tedious history. Though entirely removed from English influences, Sweden has followed a course which has been strikingly similar to that of England

in many of its phases. As in England, the budget has been intimately tied up with the growth of representative government. The organization of a national parliamentary assembly, the first Riksdag, came in Sweden as early as 1435, while it appears that King Magnus had established the "right of the people to tax themselves and to take part in legislation" almost a century before that time.

The present constitution, adopted in 1809, while fully recognizing Swedish traditions, was influenced to some degree by the ideas of Montesquieu. It sought to maintain a balance of power between the King, or the government, on the one hand, and the legislative authority, or Parliament, on the other. Since the adoption of the constitution there has been a gradual shifting of power, so that the influence of Parliament, the Riksdag, has increased somewhat at the expense of the Crown. But the King still possesses independent executive authority. The office of Prime Minister was established in 1876, thereby laying the foundation for a parliamentary cabinet. But the Cabinet, as it exists today, is politically a coalition, representative of the Riksdag as a whole rather than of either house. In all matters relating to the budget, the executive (King and Cabinet) has the right of initiative, but the Riksdag alone has legislative power. If the two houses of the Riksdag cannot agree on a question of finance, it is decided by joint voting. The Riksdag, through its auditors, exercises a certain amount of control over the financial operations of the executive. It may, upon investigation by one of its committees, impeach the members of the Cabinet, controlling to this extent the personnel of the ministry. In this respect, there is a marked difference between the Swedish and English systems of parliamentary government.

In 1849 Denmark adopted a constitution modelled after that of Belgium. The governmental structure thus set up was, in the course of time, subjected to so many changes that it became necessary to frame a new constitution in 1915. This instrument really marked a return to the older constitution, with

the addition of some newer political ideas. The existing parliamentary system did not come into being until 1901. Parliament, the Rigsdag, consists of two houses, the Landsting, or senate, and the Folketing, or lower house. The Ministry is responsible in effect to the lower house, which can be dissolved at any time. The powers of the two houses are about equal; financial measures, however, must be initiated in the lower house. All important measures are considered by the Council of State, consisting of the King; the Crown Prince, when of age; and the ministers. The Minister of Finance is in charge of all budgetary and financial administration, but Parliament appoints agents to audit the public accounts each year.

When the union between Norway and Sweden was dissolved in 1905, Norway returned to the constitution which it had adopted in 1814, just prior to the decision of the Congress of Vienna to unite the two countries. The form of the Norwegian government, as it has evolved under this constitution, is not very different from that of Denmark. There is the same system of ministerial responsibility to the Storting, or Parliament. But the Storting is virtually single chambered, the upper house being little more than a committee selected from the whole body. The budget, as presented by the Minister of Finance, is acted upon by the Storting sitting as one chamber. Following the execution of the budget, an audit of financial affairs is conducted by agents of the Storting.

Swiss government has had a long and checkered history, first as a loose confederation, later as a vassal of France under the Napoleonic régime, then as a federal confederacy reestablished by the Congress of Vienna, and finally as a federal state set up by the constitution of 1848. This document was amended in 1874 to increase the authority of the federal government over the cantons, of which there are now twenty-two. These cantons stand in somewhat the same relation to the federal government as do the states of the United States to the national government. Each canton has a constitution which is subject to revision by popular vote.

The legislative authority of the Swiss government is vested in a Federal Assembly composed of two houses: the Council of States, in which the cantons are equally represented, and the National Council, a more numerous house representing the people. These houses have exactly the same legislative authority, bills as a rule being introduced simultaneously in both. Money bills follow the ordinary procedure, although they are generally exempt from the referendum, which is commonly used in passing on legislation. Coupled with the referendum is the initiative; in fact, Switzerland is regarded as the home of these methods of direct legislation, which have been widely imitated by other governments in recent years. For this reason, this country has been called "one of the great political laboratories of the world."

The most unique feature of the Swiss government is the plural executive, called the Federal Council, which consists of seven members selected for short terms by the Federal Assembly. This Council is practically a permanent body, since each member is usually reappointed as often as he chooses. It is not politically dependent upon either house of the Federal Assembly, hence it does not resign when it is voted down on any important matter, as do other European ministries. While the members of the Council do not sit in the legislative body, they address it on any subject they choose and answer questions from the floor. The Council prepares the federal budget, which is laid before the houses by the minister in charge of the finance department. When the budget has been authorized, the Council takes the responsibility of seeing that it is properly executed and submits a report of its accounts at the end of each fiscal year for review by the legislative body.

As a result of the World War, eight new states were established in central Europe, namely, the four Baltic states (Finland, Estonia, Latvia, and Lithuania), Poland, Czechoslovakia, Yugoslavia, and Albania. Three of these states (Poland, Czechoslovakia, and Yugoslavia), and also Roumania, sometimes called the succession states, include territory that origi-

nally belonged to Austria-Hungary. The unappropriated area of that country is now split into two small independent states, Austria and Hungary. Contiguous to the succession states in southeastern Europe are Bulgaria and Greece, and adjoining them, Turkey, whose boundaries were considerably changed by the outcome of the World War.

All of the states just mentioned—the old as well as the new—have set up some form of parliamentary rule since the World War. The governments of several of these states have not yet become firmly established; some are weak and unstable, and a few have drifted into dictatorships, notably Poland under the Pilsudski régime, and Yugoslavia under King Alexander's *coup d'état*, and Austria under the late Chancellor Dollfuss. The general system of government is unitary, except in Austria, which followed the German scheme of federalism, but practically abandoned it in 1934. Some states have copied the French frame of government with respect to the parliamentary body and the executive, examples being Poland, Czechoslovakia, and Greece. Several states, however, including Albania, Bulgaria, Turkey, and the Baltic states, have established single-chambered legislative bodies. In most states the titular head is an elective president, though Bulgaria, Roumania, and Yugoslavia still retain royalty in this capacity. Cabinets exist in all states; in most instances they are appointed by the titular head of the government and are responsible to Parliament, usually to the lower house when the legislature is bicameral. In Finland, however, the Cabinet owes greater responsibility to the President than to Parliament, resembling the Swedish system in this respect. The budgetary procedure of these states has generally been copied very largely from that of France, although in some cases it follows the German or English methods. In actual practice this procedure has broken down in certain instances, notably in Roumania, where the budget system was recently placed under the supervision of the League of Nations.

We need merely to mention Portugal and Spain, since they have as yet very little to offer from a budgetary standpoint.

The governments of both these countries are in an unstable condition. For some time Portugal has been governed by a political dictatorship which displaced the parliamentary system set up in 1911. In 1932 a constitution was proposed, setting up a presidential scheme of government, and the existing dictator was designated as the first president. Spain, in 1931, overthrew its monarchy, which had for several years previously assumed the form of a military dictatorship, and adopted a provisional republican form of government which is still struggling to become an established system.

Growth of the Budget in the British Dominions

We turn to the British dominions, which are in effect self-governing nations, wherein the budget as developed and practiced in England has had an interesting application and growth. There are now five of these dominions, Canada, Australia, New Zealand, South Africa, and the Irish Free State, not to mention Newfoundland, which temporarily lost its dominion status in 1934 because of financial difficulties. Each dominion has as the basis of its government a constitution, which is an act or a series of acts passed by the British Parliament. The parliamentary type of government, with a responsible cabinet as the actual executive, is applied in every case. The British Crown is represented in each dominion by an appointee known as the governor general, who is merely the titular head, performing practically the same duties as those imposed upon the King.

The early Canadian provinces experienced many of the difficulties with respect to taxation that the American colonies suffered prior to the Revolution. The British Parliament determined the taxes which these provinces should pay, the provincial assemblies having practically nothing to say about the matter. This resulted in a conflict between the appointees of the Crown and the provincial assemblies, which became quite acute during the War of 1812 and continued so for several years. In 1831 Parliament passed an act permitting the provinces to apply the proceeds of duties levied under imperial

statutes toward the expenses of their governments. But this did not satisfy the provinces, especially those of Lower Canada; so there was an open rebellion in 1837. This rebellion was quickly suppressed, and Lord Durham was commissioned to make a study of the situation. As a result of his recommendations, Parliament passed an act combining Upper and Lower Canada into one government and setting up a provincial parliament. The lower house of this parliament was given authority to originate all appropriation measures upon the recommendation of the governor general. In 1849 the British Parliament relinquished its authority to impose tariffs on the Canadian provinces. From that time on, the lower house of the provincial parliament exercised entire control over governmental revenues and expenditures, thus following the English practice of the elected house imposing the taxes and voting the supplies. In 1867 the British North America Act, which established the Dominion of Canada, was passed. It set up a federal government, giving each of the five provinces (since increased to nine) a government with assigned powers. This act, with various amendments, still continues as the constitution of the Dominion.

The Canadian Parliament consists of two houses, a Senate and a House of Commons. The Senate is composed of members appointed for life by the Governor General on the advice of the Prime Minister. This body plays no vital part in the Dominion government; it does not even share responsibility for the Cabinet with the other house. The members of the House of Commons are popularly elected, each representing a district or constituency. This body dominates the government, as does its prototype in England; the Prime Minister and the members of the Cabinet are responsible to it, as at Westminster. All financial measures must originate in the House; as a matter of fact, all proposals to spend money must come from the Cabinet.

The Canadian provinces have governmental structures similar to that of the Dominion. Each has a titular head,—a lieu-

tenant governor,—appointed by the Governor General of Canada. The legislative body, which is single chambered in eight of the nine provinces, Quebec being the one exception, controls the government through a provincial prime minister and cabinet. The budgetary procedure follows that of the Dominion.

Second in importance among the British dominions, at least from the standpoint of area and population, is Australia. As early as 1855 some of the Australian colonies, notably New South Wales and Victoria, were made self-governing states by act of the British Parliament, with a legislative body and cabinet on the English model. At length a federal constitution was proposed, approved by the people of the several states, and passed by Parliament in 1900. This document set up the government of the Commonwealth of Australia, the several states retaining their local governments and continuing to exercise such of their former powers as had not been surrendered to the federal authority. The Commonwealth Parliament consists of a Senate, in which the states have equal representation through elected members, and a House of Representatives chosen on a population basis. The Cabinet is responsible to the House. Budgetary powers and procedure follow in general the English practice, except that the Senate exercises greater authority than the House of Lords.

As early as 1853 the British Parliament had set up an elective legislature for New Zealand, and, in 1856, a ministry responsible to that body. This system of government, after some minor changes, assumed its present form by 1890. Unlike Canada and Australia, the government is unitary. Parliament consists of two houses, a Legislative Council and a House of Representatives. The members of the Council are appointive, while those of the House are elective. The Cabinet is responsible to the majority of the House. Budgetary procedure follows the general lines of English practice.

The Union of South Africa, consisting of four provinces, was established in 1910. It is, in the main, a unitary rather than a

federal government. It has a bicameral legislature, consisting of an appointive Senate and an elective Assembly. The Cabinet is responsible to the lower house. The handling of all money measures is in line with English budgetary practice, but the Senate, as in Australia, may exercise considerable power in financial matters.

The Irish Free State was set up under a constitution adopted in 1922, subject to the provisions of a treaty with the British Parliament in 1921. This constitution provides a bicameral legislative body, consisting of a Senate, rather peculiarly chosen, and a popularly elected Chamber of Deputies (*Dáil Éireann*). The Chamber has exclusive authority in all matters relating to money bills, and the Cabinet is responsible to it.

In this connection we may note briefly the growth of the financial system of India, one of the largest of the British territories, which has not yet reached complete "dominion status." English interest in India dates back to the chartering of the East India Company in 1600. For a long time this Company provided whatever government it needed to carry on its business. In 1776 Parliament passed an act which provided for a governor general, appointed by the Crown and assisted by a council. Pitt revised this scheme somewhat in 1784, by establishing a board of control under which the Company operated. This arrangement continued until the Sepoy mutiny of 1857, after which the whole territory passed to the direct control of the Crown. The act of 1858 provided for a Viceroy and a council for India which met in London, the Indian budget being voted by Parliament. The East India Company was required to fit its operations into this political structure. After fifty years under this act, a home rule measure, the Government of India Act was passed by Parliament in 1919. This act made more extensive changes in the internal government of the country than in the agencies of British control. The Viceroy, or Governor General, continues to be appointed by the Crown. He is assisted by the Executive Council, also appointed by the Crown, three out of the eight members being natives of India.

There is established an Indian legislature, consisting of two chambers, which is given authority to consider the budget as formulated by the Governor General and the Council, but without power to reject it. Otherwise, the Indian budgetary procedure follows in general the established English lines.

The Budget in Soviet Russia

The most revolutionary change in modern government is undoubtedly that made by Soviet Russia. This experiment in governmental structure and methods constitutes practically a complete break with the past. It sprang from the ashes of the old tsarist régime, which, from the standpoint of enlightened government, was about at the point that England had reached seven hundred years earlier during the reign of King John. Following the Russian Revolution of 1917, Lenin and his associates determined to establish a classless proletarian state in accordance with the theories of Karl Marx. To accomplish this, they planned to replace the broken-down capitalism of the tsarist régime by socialism; that is, by state ownership of production and state regulation of consumption. After smashing the old system, Lenin began to reconstruct national agriculture, finance, and industry under communist control, at first through the capitalistic methods of the New Economic Policy (NEP), which gradually became more and more socialistic. The NEP extended from 1921 to October, 1928, when the first Five-Year Plan was set up as the formal challenge of socialism and state-planned economy to private ownership and management. This plan was finished at the close of 1932 (after a period of four years and three months) and a second Five-Year Plan was inaugurated, which is to run until the end of 1937. The two plans are not separate and distinct; the second is merely a continuation of the first, or a development of the first on a wider scale. By the time these plans are completed, it is expected that state socialism, involving agriculture, finance, industry, and business, will be fairly well established. Something of the gigantic task which Lenin and his successor, Stalin,

have undertaken is indicated by the size and extent of Soviet Russia, including as it does 165,000,000 people, speaking many languages, and spread over an area in eastern Europe and northern Asia which is about three times that of continental United States, or approximately one-sixth of the land surface of the globe.

The frame of government which Lenin and his associates devised for Soviet Russia is quite complicated, with little or no resemblance to the structure of other governments, either past or present. The Soviet constitution avowedly seeks to establish a "dictatorship of the proletariat"; that is, a government controlled by workers, including peasants and soldiers. It therefore sets up an organ called the All-Union Soviet Congress, the delegates to which are chosen by the soviets, or occupational groups of workers and peasants. The urban soviets choose one delegate for every 25,000 industrial workers, and the provincial soviets one delegate for every 125,000 rural inhabitants. The Congress is made up of some 2,000 delegates, approximately two-thirds of whom are regarded as voting delegates and the remaining third as advisory delegates. Inasmuch as it is convened but once in two years and sits for only about a week, this Soviet body cannot fulfill even nominally the functions of a parliament or congress in other governments. But such is not its purpose, since it does not vote the budget or perform other legislative functions; it merely approves certain general reports which are submitted to it. The legislative functions of the government are vested in a body called the TsIK, which stands for the Russian words meaning All-Union Central Soviet Executive Committee. The TsIK consists of two groups or houses: a Council of the Union, made up of about a quarter of the delegates of the All-Union Soviet Congress, selected by that body; and a Council of Nationalities, in which each of the so-called autonomous Soviet republics is represented by five delegates and each of the autonomous territories by one. The former group has in the neighborhood of 500 members while the latter has about 150. The TsIK

meets, as a rule, three times a year for a fortnight or less. It is, in effect, the legislative body of the Soviet government, although it combines both legislative and administrative work. It issues decrees, ordinances, and orders; it defines the functions of the Presidium and the Council of People's Commissars; and it has authority to annul or suspend the decrees of the Presidium, or of the several autonomous states and local bodies. The Presidium consists of twenty-seven members, selected by the TsIK from its membership, nine from each group of that body and nine by these two groups jointly. The powers of the TsIK are delegated to this body when the former is not in session. Thus, the Presidium is virtually the highest legislative, executive, and administrative organ of the Soviet government. Its membership includes the political leaders and is at the same time small enough to be a workable body. While the Presidium is constitutionally supreme only when the TsIK and the Congress, its parent bodies, are not in session, it is actually never without such control since it determines all matters which are considered by the larger bodies. The TsIK elects the Council of People's Commissars, which is the Soviet cabinet or its equivalent, known to the Russians as the Sovnarkom. This executive body is usually composed of some fifteen members; it is headed by a chairman and the members are each assigned to a commissariat, or department of the government. The commissariats include such fields as foreign affairs, defense, internal supply, foreign trade, transportation, posts and telegraphs, agriculture, waterways, and finance. But constant shifts are being made in these spheres of administration. For example, the Supreme Economic Council, which was originally a commissariat for industry set up to coordinate the entire economic life of the Soviet government, was reorganized by Stalin early in 1932, so that it practically ceased to exist as a council. Prior to that time most of the Soviet industry, including nearly all the power plants, factories, and mines, was managed by this Council through so-called trusts. It was found that such great centralization overtaxed the membership of the Council. Stalin

accordingly decided to split up its work, forming three commissariats, one each for heavy industry, light industry, and timber.

The most important economic authority in Soviet Russia at the present time is the Council of Labor and Defense, known as the STO. This body, originally composed of the members of the Council of People's Commissars connected with economic problems and national defense, together with certain industrial and financial advisors, was reconstituted by Stalin early in 1930. At that time Stalin became one of its members, which is his only official post aside from his work as general secretary of the Communist Party. The STO is the final arbiter of disputes arising between the different organs of Soviet economic administration, a power which it exercises mainly because of its close relationship with the Political Bureau of the Central Committee of the Communist Party. Associated with the STO is the Gosplan, or State Planning Commission, an advisory committee whose function is to draft plans for the future economic development of the country along socialist lines. The staff of this Commission includes more than a thousand employees, among whom are engineers, economists, statisticians, agronomists, and experts in trade and finance. Its work is divided into a number of sections and extends to all parts of Soviet Russia. The final results of the work of the State Planning Commission are the five-year plans, already noted.

An important and unique part of the machinery of the Soviet government is the Rabkrin, to use the Russian abbreviation for the Commissariat for Workers' and Peasants' Inspection. This body is really an agency of audit and control, which constantly supervises the political and economic apparatus of the government. It maintains a far-flung network of inspection covering the administrative and financial operations of all units and agencies of the Soviet state, and its reports are a regular source of information about the actual fulfillment of governmental plans. It is closely linked with the Central Committee of the Communist Party.

What would appear from the foregoing brief description to be a very complicated scheme of government is, in its operation, rather simple, since all the important legislative and executive decisions are made by the Central Committee of the Communist Party. Within this Committee, which is quite large, is an inner steering group of about a dozen members, known as the Political Bureau. This Bureau makes the decisions which are binding upon both the party and the Soviet government. The Committee rarely ever reverses a decision of the Bureau. Associated with the Bureau is an Organization Bureau, or propaganda unit, and a Secretariat. The general secretary and political leader is Stalin. Although the Communist Party has less than two million members, it is able to keep control of the government through its powerful central organization which brooks no opposition. All persons wishing to join the Communist Party must meet certain rigid requirements. For this reason Sidney Webb has termed the party "a unique and unprecedented form of social organization."

The budget forms the basis of Soviet economic planning. It is formulated by the Commissariat for Finance with the aid of the various state-planning agencies already noted. It is prepared annually and presented by the Finance Commissar to the Presidium and the TsIK for their examination and approval. But this procedure, because of the unusual structure of the Soviet government, does not accord with that of other countries. The present tendency is to make the national budget all-inclusive. The constituent republics have, in practice, no real budgetary independence. Their budgetary needs, as well as those of the local units, are being brought more and more into the Soviet budget, thus creating a unified budget in the fullest sense of the term. This is possible because the Soviet government permits of no rivalry as between the union and the constituent republics, such as exists in most federal states. All of these bodies are subordinate to the central powers of the unified Soviet system. Their administrative tasks, their financial requirements, are all mapped out by the central powers.

Under the Soviet constitution the authority of the union is expressed in such broad terms that, if the necessity arises, it can be extended to every sphere of life.

In the western world particularly, the Soviet system has been the subject of rather severe criticism by many writers. They have regarded a planned economic life for a nation, such as that set forth in the Soviet five-year plans, as belonging "to the realm of metaphysics rather than to that of practical economics." It is no doubt difficult for one steeped in the political and economic philosophy of individualism to appreciate fully the significance of the Soviet experiment. Of course it is yet too early to determine with any finality, as W. H. Chamberlin puts it in his *Soviet Russia* (rev. ed., p. 137), "whether the industrial and commercial life of a country can be planned in advance with profit or whether this complex task places too great a strain upon the wisdom and foresight of any group of men. . . ." Nevertheless, Sidney Webb asserts that one would have to be bold indeed "who would feel any confidence that British or American political machinery, or any other known to political science, would, during the past decade, have served Russia more successfully than the Communist Party. Certainly no one in his senses would advise the Russians to scrap their present organization in order to substitute for it the organization of the Congress of the United States or the British House of Commons, the League of Nations or the Disarmament Conference. At least Soviet Russia has a will and a plan."¹

Oriental Countries Take up the Budget

Many occidentals, especially Americans, will probably be surprised to know that budgetary methods have been followed in the Orient, particularly in Japan, for many years. While the United States was still in the midst of the "pork barrel" era, Japanese statesmen were busy designing a system of parliamentary government, embodying budgetary procedure. This system was established by a constitution adopted in 1889,

¹ "The Steel Frame of Soviet Society," *The Political Quarterly*, January-March, 1933; also *The Yale Review*, Winter, 1933, p. 316.

which was largely the work of Hirobumi Ito. In 1870 Ito was sent to the United States to study American governmental institutions, but he found them poorly suited to Japanese needs. So in 1882 he was sent to Germany, whereupon he decided to follow the Prussian government as his model.

The constitution of 1889 set up a highly centralized form of government. The executive, at the head of which is the Emperor, consists principally of the Cabinet, under the leadership of a Prime Minister selected by the Emperor. The legislative body is the Diet, whose prototype was the old Prussian Landtag. It is composed of two houses, the House of Peers, or senate, and the House of Representatives. These houses stand on an equal footing, except that budgetary matters must first be considered by the lower house. While not constitutionally responsible to the Diet, the Cabinet customarily resigns upon an adverse vote by this body. A Board of Audit is provided to check the accounts of the administration and to report thereon to the Diet.

The Cabinet is responsible for the formulation of the budget, the Minister of Finance having direct charge of its preparation and submission to the House of Representatives. Each house of the Diet considers the financial proposals through a large committee on the budget. The Diet may not change these proposals in certain categories of expenditures, which happen to be so broad as to leave only a very limited field for unhampered action by this body. However, the Diet is free to criticize the financial operations of the executive through the reports on accounts which come to it from the Board of Audit within a few months after the close of each fiscal year.

The budget has not developed in China as it has in Japan, mainly on account of the instability of the Chinese government. Practically nothing had been accomplished in the direction of budgeting up to 1928. During that year the Nanking government of the Chinese Republic invited a commission from the United States to set up a system of public finance, including budgeting and centralized accounting. After more than a

year's work the commission was able to devise such a system. Certain members of the commission were then retained by the government to supervise its installation. Whether or not the system will become an established part of the government is difficult to say, because of the provisional character of the government itself.

The existing government of the Chinese Republic is a dictatorship. It includes certain political elements of the ancient empire, combining with them ideas borrowed from Soviet Russia and the republics of the Occident. The Nationalist Party is the moving force behind the Nanking national government. While the structure of the government is a complex affair, at least on paper, it lends itself quite readily to a military or party dictatorship. A provisional constitution was drawn up in 1931, but it left unsettled a number of important problems, such as the relation between the central and the provincial governments.

Development of the Budget in the United States

The budget does not seem to have been a matter of any concern to the framers of the constitution of the United States. They apparently accepted it on the basis of English practice, and regarded budgetary procedure as something which would take care of itself as soon as the new government had been established. When framed, the constitution therefore carried only a brief and vague provision relative to procedure, as follows: "No money shall be drawn from the treasury, but in consequence of appropriations made by law; and a regular statement and account of the receipts and expenditures of all public money shall be published from time to time." Although *The Federalist* contained a great deal about taxation, it likewise omitted entirely any discussion of the budget. In No. 36, Hamilton incidentally remarked: "Nations in general, even under governments of the more popular kind, usually commit the administration of their finances to single men or to boards composed of a few individuals, who digest and prepare, in the

first instance, the plans of taxation, which are afterwards passed into laws by the authority of the sovereign or legislature." He undoubtedly had in mind the English budgetary procedure, as demonstrated by his subsequent efforts in establishing the financial administration of the national government.

When the new government was set up, Hamilton became the first Secretary of the Treasury, serving under Washington from 1789 to 1795. At first he presented his financial plans and reports in person to Congress, usually to the House. His proposals were marked with originality, boldness, and unity. So great was his skill in public finance that he was able to lift the government out of bankruptcy in a very short time, placing its credit and revenues on a stable basis. But he was soon denied direct access to Congress, due largely to a change in congressional organization not contemplated by the framers of the constitution, which practically ended executive initiative in budgetary matters.

This change, far-reaching in its effects, was the adoption of the committee system in Congress, particularly in the House. Inasmuch as the constitution had placed the initial responsibility for all revenue measures in the House, this body at first resolved itself into a committee of the whole on ways and means in considering such measures, following the practice of the House of Commons in England. There were no standing committees intervening between the recommendations of the executive and the action of the House. The Secretary of the Treasury, and the other cabinet officers as well, came into direct contact with the House after the manner of the English ministry. But on December 16, 1796, it was resolved that a committee on ways and means should be appointed in the House. This body was made a permanent standing committee of the House in 1802. In the meantime other congressional committees had been appointed, which also became permanent bodies, with the result that nearly all important legislative matters were rapidly parceled out to committees. To such extent was the work of Congress carried on by these committees

within a few years that Justice Story observed with apparent disgust: "The executive is compelled to resort to secret and unseen influences, to private interviews, and private arrangements to accomplish its own appropriate purposes, instead of proposing and sustaining its own duties and measures by a bold and manly appeal to the nation in the face of its representatives."

For a long time after Justice Story's observation, financial matters were handled in each house of Congress through a single standing committee, the committee on ways and means. This practice, while not the most desirable, did, however, contribute to the general unity of the financial program. But in 1865 the consideration of expenditures was separated from that of revenues by the creation of the committee on appropriations. Shortly thereafter the single appropriation bill, which had been in vogue up to that time, was broken up into several bills; some of these bills were taken away from the committee on appropriations and distributed to other congressional committees for consideration. Thus by 1885, practically the last vestiges of unified financial planning within Congress itself were destroyed. Then came the era of the "pork barrel" with its squandering of public funds in the interest of political patronage and party control. This led to "logrolling" in Congress, a procedure by which appropriations containing "pork" were voted with machinelike precision. Under these circumstances the President was practically helpless in fixing any limits to the spending program. He might exercise his veto power after Congress had acted, but such action was largely futile since he could not eliminate or reduce appropriation items; he could veto only entire bills.

Under the congressional form of government initiated in the United States, it was possible for Congress to ignore the executive in the formulation of the revenue and spending programs, owing mainly to the lack of any direct connection between the two agencies, such as that provided by the parliamentary form of government. For more than a century after Washington's

time, the President and his cabinet maintained a show of independence by staying at one end of Pennsylvania Avenue while Congress met at the other end, a mile away. Sometimes a cabinet member would appear before a congressional committee, but if the President wished to communicate with Congress, he did it by a written message. Congress, on the other hand, exhibited its independence of the executive by frequently disregarding the presidential messages. From a financial standpoint, this was indeed a government of checks and balances—more checks however than balances!

By 1910 the financial methods of the national government had become so obviously defective and open to political abuses that steps were taken to correct them. President Taft appointed a Commission on Economy and Efficiency and assigned it the task of studying the administrative organization and financial procedure of the government. After a searching investigation, covering two years, this Commission made several reports setting forth its findings and recommendations. Perhaps the most important of these reports was one entitled "The Need for a National Budget," which President Taft transmitted to Congress with his endorsement on June 27, 1912. He believed so strongly in the main recommendation of this report, namely, the formulation of the budget by the President, that he actually prepared "A Budget for the Fiscal Year 1914." But when he submitted this document to Congress, it was coldly received and practically ignored.

Although the work of the Taft Commission was neglected by Congress for the time being, it had an immediate and telling effect on the state governments. The financial procedure of these governments, in most instances, was as defective and as open to political abuses as that of the national government. Indeed, the framework of government in each of the forty-eight states closely resembled the national structure, the executive being independent of the legislative body. In handling financial matters each state legislature followed the practice of working through standing committees in its two houses in

very much the same way as did Congress. Financial planning, such as it was, rested with the legislature and its committees, the state executive taking practically no part. Under these circumstances, the work of the Taft Commission was enough to provide the initial impetus toward a country-wide movement for budgetary reform among the states. Within a decade nearly every state government had provided either by statute or by constitutional amendment for budgetary methods, at least to some degree. About two-thirds of the states made the governor responsible for preparing and submitting the budget to the legislature. The remaining states, which were not yet ready to entrust this function entirely to the governor, provided a board or committee for the purpose. Several states reorganized their administrative structures with the idea of fixing greater responsibility upon the governor, not only for the formulation but also for the execution of the budget. A few states saw fit to limit the action of the legislature with respect to the governor's budgetary proposals.

These state experiments in budgeting were in the nature of laboratory tests, which served to demonstrate the great need for a budget system in the national government. Following the close of the World War there was a strong popular demand for national budgetary reform, so much so that Congress could not delay the matter any longer. Several proposals were considered by congressional committees and numerous hearings were held. Finally, in June, 1920, Congress passed a bill to provide for a national budget system. But President Wilson vetoed this bill on the ground that one of its provisions, restricting the executive's power to remove the Comptroller General and the Assistant Comptroller General, was unconstitutional. Congress, already on the point of adjourning for the session, took no action on the veto. The next year, however, this bill, practically without change, was again passed by Congress. This time it was approved by President Harding and became a law on June 10, 1921, under the title of the "national budget and accounting act." Briefly, this act made the President re-

sponsible for submitting a budget to Congress each year. It created a Bureau of the Budget, under a director appointed by the President, to serve as a staff agency in preparing the budget; while nominally independent of the Secretary of the Treasury, this Bureau is, as a matter of law, under the Treasury Department. It also established a General Accounting Office, under the direction of an officer—the Comptroller General—responsible in effect to Congress. Shortly after this act became effective, Congress took steps to provide better legislative organization and procedure for handling the budget; each house consolidated its several committees dealing with appropriations into a single committee.

But at this point Congress ceased to make other needed changes in the established organization and routine of the government. The houses of Congress still have several committees dealing with budgetary matters. If they choose through these committees to disregard the President's budget, even as a preliminary financial plan, they may do so. Cooperation between the executive and Congress in financial planning, if secured at all, must be approached through the avenue of party control; it does not yet exist by virtue either of law or custom. Finally, a legislative audit and review of the financial operations of the executive and the administrative departments, generally regarded as indispensable in parliamentary governments, is almost entirely lacking.

Latin American Countries Experiment with the Budget

The twenty countries of Latin America, namely, Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru, Uruguay, and Venezuela in South America, Costa Rica, Guatemala, Honduras, Nicaragua, and Salvador in Central America, Mexico, Panama, Cuba, Haiti, and the Dominican Republic, are all republics, at least in name, each with a constitution that provides a form of representative government. Their governmental systems are generally of the presidential type, although in a number of instances the presidents have been virtually dic-

tators at one time or another within recent years; in fact, Latin America has been called "the promised land of semi-dictatorial presidentialism." Parliamentary government has not been tried there, except in a limited way. In Chile it proved unworkable and was abandoned. Uruguay recently established by constitutional revision a form of government which is a cross between the parliamentary and presidential systems.

In setting up their general governmental structures, the Latin American countries have been influenced to a marked degree by the constitution of the United States; but in matters of administration they have been inclined more toward French law and practice. Their governments, however, are far from being uniform, which may be explained by the general background of their peoples and the wide range of their social and economic conditions. Structurally, they follow both the federal and unitary forms. Argentina, Brazil, Mexico, and Venezuela are federal states, while the others are unitary. A few, moreover, are not sovereign states, but operate under certain limitations. Cuba is virtually a protectorate of the United States; Nicaragua is under temporary supervision by the United States; Panama functions under the limitations imposed by the Panama Canal; and the Dominican Republic has some financial and customs disabilities.

An examination of the early constitutions of Latin American countries, those adopted around the middle of the nineteenth century, shows that several of them contained some budgetary provisions. The oldest one still in force, that of Argentina promulgated in 1853, provided for a national budget and placed responsibility for voting it upon the legislative body, giving the lower house the exclusive right to initiate tax measures. But this budgetary feature, as in the case of other more recent Latin American constitutions, was largely a matter of form. It lacked the historical antecedents and political precedents found in England and some other countries of the world. Efforts of the Latin American governments, therefore, to carry out their budgetary provisions have been very ineffective. For

many years before the World War deficits were a common occurrence among these governments; in fact, some of them ran into the red year after year until it appeared to be a chronic condition. Under these circumstances, borrowing either at home or abroad was the usual method of making ends meet.

After the World War this situation grew worse in nearly every Latin American country. Foreign creditors became skeptical of the ability of some of them to pay what they already owed, to say nothing of new loans which they sought. Their governments became more and more unstable; here and there revolutions broke out and dictatorships were set up for a period. These conditions imperiled the payment of foreign creditors. As a result several Latin American governments were forced to take steps looking toward the reconstruction of their administrative and financial affairs. They invited commissions from the creditor countries most interested to undertake surveys of their machinery and methods and advise them on what should be done. In 1923 the Brazilian government asked British financial interests to send a commission to study its economic and fiscal structures with the idea of making recommendations for the financial rehabilitation of the country. This was done, but the recommendations of the commission really had very little effect on the fiscal policies of the government. So in 1931 it again became necessary for a British financial agent to advise the Brazilian government on what to do to maintain its credit standing. While Brazil was thus being advised, several other Latin American governments, notably those of Colombia, Chile, Ecuador, Peru, and the Dominican Republic, found it necessary to invite commissions from the United States to assist them in rehabilitating their finances. The recommendations of these commissions emphasized, among other things, the establishment of budgetary methods. Laws setting up budget systems similar in many respects to that of the United States were drafted and duly enacted in several of these countries. The actual working of these laws leaves, as

yet, much to be desired. Both the national and local governments, as a general rule, persist in their antiquated and slipshod methods. Under these conditions, it is difficult to say when effective budgeting will become an established practice among the Latin American governments.

CHAPTER II

GENERAL ASPECTS OF THE BUDGET

HISTORICALLY, the budget is vitally connected with the development of representative government, as we have seen in the preceding chapter. Indeed, it is one of the constitutional bulwarks of every government of this general type. Among the indispensable powers of the legislative body under both parliamentary and congressional patterns is the periodic voting of the budget. It insures that the legislators, the people's representatives, will assemble at regular intervals to examine and authorize the financial requirements of the government. By such procedure expression is given to the "budget prerogative," as Stourm calls it,—the popular right to control the public purse. This political idea is undoubtedly of fundamental importance in all democratic forms of government. While it is of less significance in autocratic forms, the fact remains, nevertheless, that under these forms also the budget is essential to the realization of political aims, the establishment of satisfactory credit relations, and the carrying out of economic and social plans. No dictatorship can long survive without due regard for the budget.

What is the budget? When viewed in the light of present-day usage—and considering its historic background,—the budget may be said to have three essential elements: (1) a financial plan, (2) a procedure for formulating, authorizing, executing, and controlling this plan, and (3) some governmental authority responsible for each successive stage in this procedure. These elements, in combination, are usually called the "budget system," sometimes the "budgetary process," or simply "budgeting," while the financial plan itself is known as

"the budget." Hence the term "budget" has both a general and a specific connotation, that can be determined only by the context in which it is used.

The budget, as a plan, sets forth the monetary requirements of the government for a definite future period—usually a year—and in so doing presents a balanced relationship between estimated expenditures and anticipated income. Some writers have regarded the budget merely as an accounting statement, overlooking the fact that it is primarily a *plan* directed to one end, namely, the financing of the government. While the budget may, and does, present information on the existing and past requirements of the government, that is not its main purpose.

The budget, as a procedure, involves certain definite and consecutive stages. Stourm, Allix, and Willoughby have designated four such stages, each including practically the same phases, but expressed in somewhat different terminology. For our purposes we shall call these stages: (1) formulation of the budget, (2) authorization of the budget, (3) execution of the budget, and (4) accountability for the budget as executed. The first stage involves the various steps in preparing estimates and framing the financial plan; the second stage, the voting or legal adoption of the plan; the third stage, the carrying out of the plan as authorized; and the fourth stage, the audit and review of the resulting financial operations.

The governmental authority responsible for each successive stage, the third essential of the budget, is largely determined by the pattern or type of government to which the budget is applied. Under English parliamentary government, for example, the executive is responsible for the formulation and for the execution of the budget, while the legislative body is responsible for the authorization and for an audit and review of the financial records. This allocation of authority, however, is subject to numerous exceptions when applied to other parliamentary systems. Constitutional variations in these systems, as we shall see later, affect very materially the extent to which the executive and the legislative body participate in the budget-

any process. What is true of parliamentary government is equally true of other types or forms. Uniformity of treatment in budgeting is, indeed, a rule "more honor'd in the breach than the observance." To put it another way, the budget is by no means the same, either in design or procedure, in every country or under every government. It exhibits great flexibility, which is one of its most interesting characteristics. It conforms to the political ideas which for the time being govern a particular country, but whenever these are changed for any reason it readily adjusts itself to the structure and methods of the new government. In a nutshell, these are the political aspects of the budget, which we shall now discuss.

HOW POLITICAL IDEAS AND PATTERNS AFFECT THE BUDGET

The political ideas of today seem to support two general schemes of government, democratic and autocratic, which in a way stand at opposite poles. But the types of actual government are to be found somewhere between these extremes; they are neither pure democracies nor absolute autocracies. Democratic or representative government is expressed through modifications of the parliamentary and congressional types, while autocratic government is exemplified by individual or party dictatorships. Other types may emerge in the future, although, as Lord Bryce has well said, "mankind shows singularly little inventiveness in this field of action compared to the resourceful ingenuity it evinces in adapting the forces of nature to its service." With the possible exception of the Soviet scheme, political thought of today seems capable of variations only within the democratic or autocratic frames.

Considering the budget under parliamentary or cabinet government, we find in England, to begin with, that budgetary practice is based on certain definite relations existing between the Cabinet, that is, the executive, on the one hand, and Parliament on the other. The Cabinet gets its authority directly from Parliament; indeed, it has been called the great standing committee of Parliament. But while the Cabinet is a creature of

Parliament, it is "a creature which leads, nay, drives, its creator." It accomplishes this through direct contact with the House of Commons, where it initiates all important governmental policies, and where its members sit during the session, answering questions or leading the discussions. By this arrangement the Cabinet is made responsible to the House at all times, and its tenure of office depends upon the majority support of that body. When the Cabinet fails to win such support for any of its measures, it may either resign as a body or dissolve the House and call an election. If the election returns a favorable majority in the House, the Cabinet remains in office. It is in this constitutional setting that the Cabinet formulates the budget, submits it to the House for approval, and thereupon sees that it is properly executed. As a necessary check on the executive, the House provides for an audit and review of the accounts kept by the administrative departments under the direction of the Cabinet. And so we have a complete financial system which, from a budgetary standpoint, works as well perhaps as any other in the world. Because of this fact many governments have copied it, but in so doing they have made numerous adaptations due to national usages and conditions.

When we look at the parliamentary system of France, we find that the Ministry, although responsible to the Chamber of Deputies, stands on a very different footing from that of the English Cabinet. It never really controls Parliament, since it has practically lost the power of dissolution over the Chamber. This not only reduces its prestige in the Chamber, but also results in frequent and useless changes in the Ministry. Under these conditions, the Ministry can rarely hope to have its budgetary proposals accepted by Parliament, as is uniformly the case in England, and there is not the same clear-cut responsibility for budgeting as between the Ministry and Parliament. Then, too, parliamentary checks on the executive find expression more often through interpellation and overthrow of the Ministry than through audit and review of the administrative accounts, as in England.

The other parliamentary governments of Europe, particularly those established since the World War, have more or less copied the main features of the French system. But they have attempted to overcome the faults of this system, although often without much success. Belgium has perhaps succeeded to the greatest extent. This is largely due to the fact that it has maintained the Cabinet's power of dissolution over Parliament, the lack of which has so greatly weakened the position of the French Ministry. An unusual feature of this power in Belgium is that it may be applied to either or both houses. This support of the executive's position undoubtedly makes the Belgian parliamentary system operate more like that of England than of France. The other parliamentary governments do not, as a rule, vest such extensive powers in their cabinets or ministries, but leave more authority in the hands of their titular heads or their legislative bodies. In Sweden, the King enjoys independent executive power, and he may pursue his own policy in the choice of a Ministry; indeed, he has only recently followed the common practice of parliamentary government in allowing the Ministry to be formed along the party lines of the Riksdag and to respond to the political changes in that body. Largely for this reason the Riksdag has not limited its action on the budget merely to discussing and approving the financial plan formulated by the Ministry, as has the English Parliament. The new government of Finland has borrowed these features from Sweden. The Finnish President has power to appoint and dismiss the Ministry, and he does not, as in the case of the King of England, become an inactive head of the government during its term of office. The Finns have thus attempted to combine parliamentary government with the establishment of independent executive and legislative authorities. In the case of Switzerland the shift from the true parliamentary pattern has been so marked as almost to constitute a new type of government. The Swiss model combines certain features of both the cabinet and the presidential forms. But it stands practically alone—"exotic," to use Marriott's term,—since it is not repro-

duced in any other country of the world. While the Swiss executive is similar to a cabinet in that it is plural and appointed by Parliament, it is practically independent of that body and relatively permanent. If its budget is rejected by Parliament, it swallows its pride of authorship and goes about its duties; it does not resign, or, upon dissolving Parliament, appeal to the electorate, according to English practice. The Cabinet of Japan, although constitutionally responsible to the Emperor, has of late responded somewhat to the political wishes of the Diet, especially in budgetary matters.

Turning to congressional or presidential government, we find that the budgetary process varies considerably from the usual procedure under parliamentary government. This is due chiefly to a fundamental difference between the parliamentary and congressional types: the parliamentary type requires that the executive, however chosen, must enjoy the confidence of the legislative body, while the congressional type provides that the executive must be independent of the legislature. Under congressional government the executive—always a single individual—is elected by the voters for a definite term; he therefore holds office by the calendar and is not dependent upon the support of a majority of the legislature. From the budgetary standpoint, this independent status of the executive with respect to the legislature is a serious weakness, since it obstructs or altogether prevents working coöperation and mutual action between the two authorities.

The financial history of the United States shows that for more than a century after Washington's administration there was not sufficient coöperation between Congress and the President to maintain a national budget system. Of course, there were many occasions during this period when Congress listened to the recommendations of the President, not, however, because he was the executive but because he was the leader of the dominant political party in both houses. But this was party, not constitutional, leadership. It was not until 1921 that Congress saw fit to give the President a part in financial planning,

and thus to reestablish his right, as apparently intended under the constitution. Even so, the President's budgetary proposals, as we shall see later, are largely advisory to Congress, except when force of circumstances and party rule may make them compelling, as in the case of President Roosevelt's recommendations during the financial crisis of March, 1933. Congress still persists in many of its old practices. It excludes the President from its councils and drives legal wedges between him and the administration whenever it has an opportunity. It tries to exert control over the administration through its own devices, such as detailed appropriations made directly to the administrative departments and agencies. Although entirely permissible under the existing constitution, Congress does not seek to establish definite working contacts and mutual relations with the President, and having done so to turn over to him full responsibility for the administration. The failure on the part of Congress to make such adjustments in its procedural structure accounts, perhaps more than anything else, for the absence of an effective system of legislative audit and review of the financial operations of the government. Similar criticisms may be made of nearly all of the forty-eight state legislatures, since these bodies follow more or less the same procedure as Congress.

When we observe the working of the budget under a dictatorship, like that of Italy, we are surprised at how closely it seems to follow the general lines of budgetary practice under the English system. The Italian Dictator formulates the budget plan and submits it to the legislative body for examination and approval, without any material change, and thereupon executes the plan. By substituting the word cabinet for dictator, we have practically the English budgetary procedure. But there is one fundamental difference. The English Cabinet springs from Parliament, which in turn represents the people, thus establishing a direct connection between the executive and the people, which is, according to the democratic formula, the best guarantee against tyranny. The Italian Dictator, on the other

hand, is a power unto himself, immediately responsible only to the Fascist Grand Council, if to any one; he does not require the support of the majority of Parliament to make his proposals effective, and Parliament cannot oust him, or vote a lack of confidence which is tantamount to his overthrow. Nevertheless, the Italian Dictator's authority to propose a financial plan which his Parliament must approve is no more supreme than that of the English Chancellor of the Exchequer when enjoying the majority support of the House of Commons. But the limitations upon the budgetary action of the Italian Parliament are imposed from without, while those of the Commons are self-imposed. In the execution of the budget, the Dictator is without effective legislative audit or criticism; his financial operations are checked, if at all, by party, rather than by governmental machinery.

The effect of the governmental system of Soviet Russia on the budget is, to say the least, quite novel. This system provides for great concentration of authority, and, at the same time, disregards the separation of powers ordinarily found in congressional governments. The Soviet organs which formulate, ratify, and execute the budget cannot be said, at any stage in the budgetary procedure, to be either wholly executive or entirely legislative in character; rather they are a combination of the two, with the added element of party direction. For this reason, these organs do not get in opposition to or conflict with one another, as happens under parliamentary or congressional governments, but are interrelated to such a great extent that there results a kind of division of work and mutual control. They are, strictly speaking, accountable to the Central Committee of the Communist Party for the execution of fiscal policies and provisions. They follow its unified command in working toward the collectivist objectives, and they are checked by a scheme of audit and inspection under its direction. This system of party dictatorship, says a competent observer, Gerhard Dobbet, "alone explains the unanimity with which the tremendous financial demands that are imposed year after

year upon the individual citizen and upon the nation as a whole are laid down and then carried out with the utmost severity and ruthless logic."

The Separation of Governmental Powers in Relation to the Budget

Governments of today, it will be observed from the foregoing discussion, are entirely lacking in any uniformity with respect to the distribution of powers among their several authorities or organs. Some have quite rigid, others highly elastic, schemes of distribution. The most rigid scheme, amounting in reality to a separation of powers, is found in the American system. This scheme was derived by the framers of the constitution from Montesquieu's celebrated doctrine, which in turn was based on a misconception of the English system. As expressed in the constitution, it provides for the allocation of the powers of the national government to three distinct and separate branches: legislative, executive, and judicial. These branches are so constituted that they are independent of one another, or virtually so; but they are not, as might be expected, on an equal footing. The judiciary, due to the developments of the past century, now really stands at the head of the government, since it may nullify the laws of the legislature and invalidate the acts of the executive, there being no appeal from its decisions except indirectly through the cumbersome process of constitutional amendment. Both the legislature and the executive may, therefore, be hampered or delayed in their actions by the opinions of the judiciary. But aside from this, there is the further separation of the powers of the legislature and the executive, which serves to prevent much needed co-operation between the two and to thwart the development of executive leadership in the legislature.

The soundness of the American scheme of separation of powers, as a practical working arrangement for government, has long been questioned. It is contended that this scheme is purely artificial, with little or no relation to the actual func-

tions of government. And so it would seem, if we observe the working of other types. While parliamentary government distinguishes between the functions of the executive and those of the legislature, it does not separate the executive from the legislature, but, as we have already noted, makes the executive dependent upon the legislature for its authority and leadership. The judiciary, in this case, becomes merely an adjunct of the executive. No special virtue, therefore, is attached to the trinity of powers under the parliamentary system. Under the Soviet system, even the parliamentary distinction between the functions of the executive and the legislature is discarded. These functions are merged in their assignment to the constitutional organs of government. Being impatient to create a new social order, the Russian communists find no use for a scheme of checks and balances among the operating units of their government. They wish the greatest freedom of action, and therefore combine all powers. A similar arrangement is in process of realization under the Fascist system of Italy.

If we forget about the American separation of powers and observe the general working of existing governments, we see that government is concerned with two things: planning and executing; that is, determining what shall be done, and then doing it. Now planning, under parliamentary and congressional governments, is a matter for both the executive and the legislature; but under the Soviet and Fascist systems, it is a matter that enlists the principal organs of government and, in addition, the central agency of the dominant political party. Executing, on the other hand, under parliamentary and congressional types, is an executive function, or shall we say, an executive-administrative function; but in Soviet Russia and in Fascist Italy, it is a function of the central governmental bureaucracy, acting at the behest of the dominant party organ.

While planning and executing constitute the dynamics of modern government, there is a sort of counterpoise to these governmental forces, which is indispensable from the standpoint of the budget. This counterpoise is a comprehensive and

effective check on the execution of whatever plan, or plans, may have been devised and adopted. Such check affords a means of ascertaining if the execution is poor or the planning defective. It therefore serves, or should serve, both as a control on the governmental forces at work and as an instrument for testing the soundness of public policies.

In England this check takes the form of an audit of the executive and administrative departments conducted by a trained staff agency responsible to Parliament, the findings of this agency being reviewed by a parliamentary committee. In constituting this committee, special recognition is given the political party in opposition to the government of the day by assigning to it the chairmanship and sometimes a majority of the members. The check therefore has two aspects: an expert and detailed examination of financial operations performed by a legislative agency, and a critical review of governmental plans and policies led by the political "opposition" in Parliament. It is, in short, both legislative and political. Practically the same system of check obtains in the British dominions. It has also been more or less copied by the Scandinavian countries. But in France this check is performed by a court of audit, so constituted as to be practically independent of the legislature and the executive. Although the findings of this court are presented to Parliament, they are usually so delayed that they are practically useless as a means of reviewing current governmental acts or policies. Political criticism by the "opposition," therefore, does not operate through this audit as in England, but takes the more direct method of interpellation on the floor of Parliament. Many of the central European governments have copied the French scheme of audit. In some of these governments, where the audit is greatly speeded up, it operates with more success than in France. But on the whole, its judicial character has a deadening effect upon legislative scrutiny and criticism, and its findings tend to fortify existing practices against political change. In Soviet Russia, this check is exercised by the Central Committee of the Communist Party, which

uses as its agency of investigation and audit the Rabkrin (Commissariat for Workers' and Peasants' Inspection). It is, therefore, entirely political, and without the chastening effect of criticism by an opposition party. In Italy, the Fascist Party is in the process of instituting a similar scheme, operating through the Fascist Grand Council with the *Milizia Volontaria per la Sicurezza Nazionale* as the chief inspecting agency.

It is hardly necessary to add that the United States is the one leading government of the world which is almost wholly lacking in a satisfactory check, either legislative or political, on the execution of its plans. Although Congress has created a special officer, the Comptroller General, to conduct an audit of all financial transactions of the government, no provision has been made for subjecting the findings of this officer to scrutiny and criticism by a congressional committee, consisting mainly of members of the political party opposing that of the executive. Even the functions at present assigned to the Comptroller General are not in keeping with such a development, as we shall explain in Chapter IX.

THE BUDGET IN UNITARY AND FEDERAL FORMS OF GOVERNMENT

When viewed from the standpoint of concentration of authority, there are two general forms of government, the unitary and the federal. In countries with the unitary form, all powers of government reside in the executive and legislative agencies of the national structure; there are no competing authorities, no territorial divisions that the central legislative body cannot modify or obliterate at will. The form, the extent, the very existence of local units depend upon statutory law. The powers of local officers are defined by national law and their conduct, especially in fiscal matters, is usually subject to detailed supervision by the central government. This scheme provides a marked contrast to the federal form in which the subordinate states, provinces, or cantons enjoy a certain amount of sovereignty by virtue of constitutional provisions which can-

not be changed except by an elaborate and special procedure. The federal form introduces difficulties from the standpoint of effective financial planning on a nation-wide scale which are in some respects almost insurmountable.

The unitary form predominates among the governments of the world, all except eight countries having this pattern of organization. England, France, Italy, Japan, and Soviet Russia are leading examples of unitary government. The English system is not so highly centralized as are the others, particularly the Italian system under the Fascist régime. The Soviet scheme, although embracing several so-called republics as subordinate states, is nevertheless highly centralized, since collectivist planning becomes impossible on any other basis. In fine, unitary government lends itself to a rational and uniform tax system, to the coördination of national and local programs of expenditure, to the elimination of overlapping and duplicating services, and to a systematized budgetary procedure throughout the country.

The federal governments at the present time are those of Switzerland in continental Europe, Canada and Australia among the British dominions, the United States, and Argentina, Brazil, Mexico, and Venezuela in Latin America. Until recently the governments of Germany and Austria were federal, but they are now virtually unitary. During 1933 and the early part of 1934, the Hitler régime decreed extensive changes in the federal system set up by the Weimar constitution, looking toward the abolition of the German states. Similar changes are also taking place in Austria.

In the federal governments, the extent of the federal powers over the subordinate states varies widely. The sphere of the central authorities is perhaps most limited in the United States, where certain specific powers are granted to the national government by the constitution and the residuary powers, covering a wider field, are left to the states. This arrangement has been copied to a large extent by Australia and by the four Latin American states. The division of powers under the Swiss sys-

tem also resembles the American scheme, although the cantons exercise independent authority over a narrower range of functions than do the states of the United States. The Canadian system is the most flexible from the standpoint of the central authorities; it enumerates the powers of the provinces, vesting residuary authority in the Dominion government. This arrangement was deliberately adopted to forestall any conflict between the Dominion and the provinces, such as the Civil War in the United States, which had just ended at the time the Canadian constitution was being framed.

It is interesting to observe how the different federal systems have developed, particularly with reference to finances. In Canada the Dominion government reserved the power to disallow provincial legislation, but it has seldom exercised this right. At the same time the broad authority of the Dominion government has been considerably reduced during recent years by legal decisions. The effect has been to bring Canadian practices closer to those of the United States. It has not yet become necessary for the central government to exercise direct supervisory authority over provincial finances, although the recent inability of the western provinces to meet their debt services has forced the Dominion to supply funds for this purpose in order to maintain its credit standing abroad. In the United States, especially since the time of the Civil War, the powers of the national government have been gradually expanding under the decisions of the Supreme Court. This body, in practice, determines the extent of the powers enjoyed by the states, delineating them by interpretation. It may declare state legislation void, its decision with respect to one state affecting similar laws in all other states. The states therefore are not sovereign entities, but, as Charles A. Beard puts it, "wards of the Supreme Court." The expansion of the national sphere of authority has been due directly to the growth of transportation, trade, industry, and such country-wide governmental activities as public health, welfare, education, conservation, and highways. The recent efforts of the Roosevelt administration to ameliorate

the effects of the depression through the instrumentalities of the New Deal, especially the National Recovery Administration (NRA) and the Reconstruction Finance Corporation (RFC), have greatly extended the influence and authority of the federal government. Under the Australian system, constitutional conflicts between the Commonwealth and the states are settled by the High Court, the Commonwealth having no power to disallow the laws of the states. But Australia nevertheless has assumed more authority over its states, especially in financial matters, than either Canada or the United States. This has come about, as we shall see later, largely through force of circumstances. The federal jurisdiction under the Swiss system has expanded in recent years. The Swiss cantons do not have the protection of a supreme court which can declare unconstitutional national laws that infringe their powers. Besides, the Swiss national government has extended its influence, as in the United States, by granting subsidies to the cantons. In Latin America the federal states have usually vested broader powers in their central authorities than has been done in the United States; still their governments have not been able to meet the problems arising under the federal system with any degree of ease or finality.

One difficult problem of the federal system is the maintenance of certain minimum standards of administration in the several states, especially in countries with large areas, like Australia, Canada, and the United States, where these states differ widely in size, population, and wealth. The United States has attempted to solve this problem in some fields of administration by granting subsidies to the states. Although the national government has followed this practice in a limited way for more than half a century, it has required the states to meet certain standards on their part only during the last two decades. Subsidies are now extended for several state activities, such as arterial highway construction, certain health functions, several phases of education and research, and some welfare and conservation work. Usually the state governments are required to match the federal funds with a specified amount of

money in order to secure them; at the same time they must agree to meet national standards and to subject the performance of their administrative agencies to scrutiny by the national government. Both Australia and Canada grant subsidies to their states, but not on the same basis as the United States. The practice in both instances was established at the time these federations were created. In Australia the states relinquished their right to customs and excise taxes as sources of revenue, with the understanding that the Commonwealth would provide certain subsidies. This arrangement was maintained until 1929, when the Commonwealth took over the debts of the states and discontinued the subsidies except in special cases. In Canada, subsidies were granted by the Dominion government to compensate the maritime provinces for the loss of certain revenues when they joined the federation. They have been continued since then and extended to all the provinces on account of the inadequacy of provincial revenues to meet the growing cost of the local governments. They do not provide an avenue for Dominion regulation, but merely supplement the income of the provincial budgets. The tendency, therefore, is for the provinces to seek larger and larger subsidies and to rely upon the Dominion to come to their aid whenever they get into financial straits.

Another problem of the federal system is the overlapping of services between the national and state governments, with the consequent duplication of personnel. In the United States this overlapping is particularly noticeable in some of the inspectional, regulatory, and promotional fields. In Canada it has been estimated that three men are required to perform the work that two ordinarily do in a unitary government. A striking feature of the Swiss system is the coöperation that exists between the national and cantonal governments, eliminating to a large extent the duplication of agencies in carrying out common policies. The theory existing in the United States and Canada, that federal laws must be executed by federal officials and state laws by state officials, is not accepted in Swiss prac-

tice, where the officials of the cantons execute many of the important federal laws. If state officials in the United States were required to meet prescribed qualifications and to maintain certain standards of work, it would seem that they might very well serve in the dual capacity of state and federal agents. In fact, there are some instances where state officers approach this status at the present time.

A third problem of the federal system relates directly to the state budgets, affecting at the same time the national budget. In the United States, the state governments are free to levy numerous taxes for their support, to spend practically without restriction, and to borrow almost without limit. There is no coordination between the financial program of the national government and the budgets of the forty-eight state governments; indeed, integrated planning on a country-wide scale by the national government has, as yet, received little or no consideration. While it is true that the national and state governments cooperate in the case of a few subsidized functions, notably in the construction of arterial highways, these are only limited affairs in the wide field of governmental activities and interests. The coordination of national and state finance, so greatly needed at this time, may be approached through (1) the integration of federal and state revenue systems, (2) the establishment of some uniformity in financial methods and procedure, and (3) the working out of a definite policy with regard to state indebtedness.

The traditional arrangement in the United States, as in Switzerland, was to set aside the indirect taxes for the national government and to retain the direct taxes for the states. But this arrangement has largely broken down, the central government being compelled to go into the preserves of the states. In an effort to secure new revenues, both the national and state governments of the United States are exploiting the same sources. This duplication of sources cannot go on indefinitely; yet no effort, at least beyond the investigational stage, is being made to bring about an adjustment. E. R. A. Seligman has

recently suggested the feasibility of two methods: one, a division of the yield, and the other, a system of supplements or additions. The first method implies federal levy and collection of certain taxes with a distribution of part of the yield to the state. The second method permits the states to add supplements to certain taxes while the federal government acts as the primary collecting agency.

The lack of uniform, or even satisfactory, financial methods and practices in the various state governments of the United States is becoming a serious matter. Several of these governments still have antiquated financial machinery, faulty budgetary procedure, and haphazard methods of accounting and reporting. The national Bureau of the Census, in its compilation of state financial statistics, has recommended improved accounting and reporting methods, but its suggestions have not been taken seriously by state finance officers. Only where standards for budgeting, accounting, and reporting have been required by the national government in connection with subsidy grants has any marked improvement been made or uniformity of practice attained. This does not mean, however, that the state authorities have done nothing of their own accord, for in several states they have made notable advances in administrative and financial practices. But the general level of advancement is still low, owing to the influence of the backward states. In Canada, the Dominion government has undertaken through its Bureau of Statistics, created in 1918, to place the provincial accounts on a comparable basis and to correlate the different revenues and expenditures of the provinces.

Several states of the United States, like some of the Australian states, have issued bonds in a somewhat prodigal manner when times were prosperous. Now they find that the burden of interest and retirement charges is almost too great for their curtailed revenues. A few may even find repudiation necessary before they can possibly adjust their shattered finances to existing economic levels; in fact, one or two are now practically in

such a predicament. When this situation develops, will the national government take any definite action on the indebtedness of such states? Australia, in meeting a situation bordering on the financial collapse of her state governments, was forced to take over the state debts. This action came just in time to forestall repudiation by New South Wales, the largest Australian state from the standpoint of population. Under the agreement of 1928-29, providing for federal assumption of state debts, there was created a Loan Council composed of representatives of each state government and of the Commonwealth government. It is the function of this Council to determine the amounts which may be borrowed, the rates of interest, and the conditions of flotation, upon receiving from each state government a program of required loans. Following the decision of the Council, arrangements for borrowing are made by the Commonwealth government, and not by the separate states. The securities, when issued, are signed by the federal Treasurer in his capacity as chairman of the Loan Council, and are redeemable at the Commonwealth Bank. The implications of this recent step in Australian finance are far-reaching, particularly with reference to the state budgets. They indicate federal supervision to a considerable extent, and perhaps ultimately the unification of national and state finances.

As between state and local governments within the United States, the theory of non-interference has been emphasized until we have almost reached the condition which Sidney Webb described as the "anarchy of local autonomy." Within recent years, however, several state governments have found it necessary to establish some supervision over the local units, especially over their finances. This supervision has taken the form of state control over local indebtedness, review of assessments, maintenance of budgetary standards, installation of systems of accounting and reporting, and audit of local financial transactions. Even in those states which have adopted such regulatory measures, the scope of state supervision varies widely and practice is by no means uniform. The influence of the national government has not directly touched the local governments in

past years, although quite recently it has reached some of them, particularly the municipalities, through the emergency machinery of President Roosevelt's New Deal.

POLITICAL PARTIES AND THE BUDGET

We have just noted the effect of governmental structure on the budget; of almost equal importance is the effect of political parties. While party systems vary widely in modern states, there are in general three types: the one-party system, the two-party system, and the multi-party system. Under the one-party system, a single major party dominates the government, and other parties are either excluded or play only minor parts in the conduct of public affairs. The two-party system favors the control of the government by two major parties, which contend for it on fairly equal terms. The multi-party system allows several parties, as A. N. Holcombe says, "to join in the struggle for power on such terms that none of them by itself can ordinarily expect to control the government."

The one-party system usually affords a convenient vehicle for a political dictatorship. This is the case in Italy, Germany, and Russia, where the Fascist, Nazi, and Communist parties, respectively, have practically a monopoly of political power. And it is the general tendency elsewhere, with the possible exception of Hungary, whenever a single major party has gained complete political control. This is evidenced by the recent drift toward dictatorships in Poland, Yugoslavia, Brazil, and Mexico. From a budgetary standpoint, the effect of a dictatorship superimposed on either the parliamentary or the congressional pattern is to concentrate authority for making and executing the budget in the dictator and to shift some or all of the budgetary powers normally exercised by the legislative body to the dominant political party or one of its agents.

According to most political theorists, the two-party system affords the best guarantee that representative government will actually be carried on with the consent of the governed. England chanced upon the two-party system shortly after the Revo-

lution of 1688, and has continued it almost to the present time. Under this system, the Cabinet represented the majority party in the House of Commons and was therefore homogeneous from the standpoint of party politics. At the same time there was a strongly organized opposition in the minority party, always critical of what the Cabinet proposed. The Cabinet's well-nigh absolute control over the House and its great authority with respect to the budget emerged from the long-continued adherence to the two-party system. Recently, this system has broken down at two general elections. But even so, it is maintained that the British, with their capacity for continual political adjustment, will work out a group system so that a *bloc* when once made will "hold together with all the tenacity needed for a stable government." "Party discipline would then lose some of its severity," says H. B. Lees-Smith (*Second Chambers in Theory and Practice*, p. 26), "but its present stringency is much greater than is necessary for a steady administration and is regarded by party leaders themselves as excessive." The essential characteristics of the House of Commons, he thinks, are likely to endure through any changes in party structure than can be foreseen. If this proves to be true, then we may expect English budgetary procedure to continue very much as it is today.

It may be observed in this connection that the two-party system is strongly established in the United States, showing at times greater fixity than it ever did in England even during its most palmy days. To the extent that the English budgetary procedure has successfully developed from this system, one may reasonably assume that it might be applied in America, in so far as it is not incompatible with the congressional form of government. The study and adaptation of English budgetary methods should, therefore, be of real service to those engaged in the further development of the American budget system.

The multi-party system is usually the parent of government by coalition. Most of the parliamentary governments of Europe operate under this system. In the French government, for

example, the Ministry is nearly always a coalition body, since the members of the Chamber of Deputies represent a half-dozen or more political parties or groups. The Ministry, on this account, is as a rule quite unstable. If a wide party basis is sought and more or less hostile groups are included in the coalition, there is continual danger of the Ministry going on the rocks. If, on the other hand, the basis is narrow enough to reduce the danger of dissension within the Ministry, it does not have the necessary majority in Parliament to carry out its policies. In either case, compromises are inevitable, especially so in the parliamentary handling of the budget. Only on rare occasions has it been otherwise; for instance, when "a non-party statesman of dominating personality" headed the Ministry (W. L. Middleton, *The French Political System*, p. 154). The Herriot Ministry of 1924 was of this character, and was able to pass a budget containing drastic reforms through the Chamber.

The introduction of proportional representation in several of the European countries has tended to make their parliaments increasingly heterogeneous. This, too, has necessitated coalition ministries, which are claimed to have the advantage of being unusually flexible. But sometimes these ministries have been so weak and unstable as virtually to lead to the breakdown of the parliamentary system. At the same time, due to popular distrust of the legislative body, various forms of direct legislation have been introduced, which also have their effects on parliamentary government. It is not surprising, therefore, to find wide departures from the traditional English system, especially in the matter of handling the budget.

Both parliamentary and congressional governments ordinarily provide for legislative representation on the basis of geographical areas. Under the party systems noted above, this representation is chiefly of a political nature and only incidentally of an economic or functional character. "Parliaments, if they are to survive as sovereign," says G. D. H. Cole in his *Modern Theories and Forms of Political Organisation* (p. 152),

"have to find ways of bringing the economic life of the nations under their effective control; for this economic life is crying out for organisation—for national and international planning—and if parliaments resign this task into other hands they will, under modern conditions, be throwing away the substance of authority, and keeping only the shadow—and even that they will not keep for long. . . . Any system which attempts to co-ordinate and control the economic life of the community must be worked through a variety of functional organisations, to which large powers must be delegated in their several spheres. The central organs of government must, if they are to work even tolerably well, fling off all detail and delegate all specific administrative tasks. If parliaments anywhere can do this, and concentrate all their time and energy on the supreme direction of policy, they may survive, and deserve to survive."

The need for some direct representation of the economic elements of the state in determining the general policies and budgetary requirements of its government was recognized by the Germans in setting up the National Economic Council as a part of the machinery of the second Reich. Even though this Council did not achieve success as it was hoped, it has been regarded as being "by far the most important experiment which has been carried out in the effort to combine in a parliamentary system a special chamber dealing with economic and social questions alongside of the old territorial system of representation." Czechoslovakia has established an Advisory Board on Economic Questions, and Poland and Yugoslavia each have constitutional provisions for a similar body. The general organization of the National Recovery Administration (NRA) in the United States, temporary though it may be, pays homage to the idea of functional representation.

Relation of Party Changes to the Budget

Under parliamentary and congressional governments, the budget offers an admirable field in which political parties may maneuver for advantage, or in which one party or group may

force another to battle for the governmental prestige and offices which it happens to hold. This may be demonstrated by citing some recent events occurring in England, France, and the United States.

Speaking of the British budgets between 1921 and 1933, Hugh Dalton says: "These twelve budgets, regarded as a whole, present a strange picture of ebb and flow. Direct taxation fell and rose again; protection came in small dribbles, disappeared and came again in full flood; the breakfast table duties almost vanished, then reappeared in new and multifarious forms; the rate of debt repayment fluctuated widely and more than once became negative; social expenditure increased, then violently contracted; the gold standard was resumed in 1925 and abandoned in 1931. Through these statistically inconclusive years, almost the only figure to move, with an approach to steadiness, in one direction was the total of unemployment. For this, with minor variations, moved steadily upwards. Failure to stem this rising tide was the main cause of all the changes of Government during this period (except that which unseated Mr. Lloyd George in 1922), and the cost of maintaining the unemployed, however inadequately, was the proximate cause of the remarkable events of the summer of 1931." Here Dalton alludes to the forming of the first "national" government, or coalition of Laborites, Liberals, and Conservatives led by MacDonald and Baldwin, with a wing of the Labor Party in active opposition.

In France political coalitions have usually met their Waterloo when attempts were made to embody their policies in the national budget. In recent months the budget has been the point of departure whenever the opposition parties or groups sought to launch an attack on those controlling the government. Thrice during 1933, in January, October, and November, the French Ministry fell because its budgetary proposals could not stand the verbal onslaughts of the opposition in the Chamber.

Political forces centered around the budget in the United States during the presidential campaign of 1932. The question

of a balanced budget became a stirring issue, and the Hoover administration was roundly criticized for having failed to maintain budgetary equilibrium. The session of Congress which met in December following the presidential election, and came to an end on March 4, 1933, spent a great deal of its time on the budget and engaged in many heated debates, but left the budget unfinished. President Roosevelt, immediately after his inauguration, called a special session of Congress to deal with the budget and with the economic crisis that had arisen. His recommendations looking toward a balanced budget were, in the main, accepted by Congress, but not without evident misgivings on the part of some senators and representatives.

The trend of events in these countries leads one to agree with J  ze that the budget is, in effect, a political program; that it is the ultimate means by which political parties realize their policies. Sooner or later all political activities, as well as governmental functions, center around the budget. Indeed, the budget determines in a large measure the fate of cabinets, the success or failure of presidents.

THE ECONOMIC AND SOCIAL SIGNIFICANCE OF THE BUDGET

There is an oft-quoted statement by Gladstone which runs thus: "Budgets are not merely affairs of arithmetic, but in a thousand ways go to the root of prosperity of individuals, the relation of classes, and the strength of kingdoms." This statement epitomizes most eloquently the economic and social significance of the budget. We can, however, illuminate it somewhat by the recital of a few recent facts.

The rapid increase in all governmental budgets during and since the World War has become a source of some anxiety to statesmen and politicians alike, especially in those countries which foster the capitalistic system. In the United States, for example, economists point with apprehension to the large percentage of the national income which is being contributed through taxes to the support of the national, state, and local governments. During 1929, when the recent boom period

reached its greatest height, the national income was estimated at 83 billions of dollars, while the requirements of all governmental units totaled about 13 billions of dollars. Allowing for public borrowings and other sources not directly chargeable to taxes, governmental requirements consumed approximately 12 per cent of the national income for that year. Three years later the national income was estimated to have dropped to 40 billions of dollars, or approximately one-half of its previous high level. At the same time the requirements of all governmental units rose to around 15 billions of dollars, with approximately two-fifths of this amount being secured through public borrowings and other non-tax sources. Governmental requirements, therefore, consumed directly about 21 per cent of the national income for 1932.

While this would seem to approach governmental extravagance for the United States, we find that England, with a similar economic system, is spending a greater proportion of its national income through its governmental units. According to data presented by Colin Clark in his recent book on *The National Income*, it appears that the national income for 1931 was around three and a half billions of pounds net, while governmental requirements amounted to approximately one billion pounds, or about 29 per cent of the national income. The latest information from Italy indicates that about 35 per cent of its national income is being consumed in support of governmental services and projects under the "corporative state" established by Mussolini. But even Italy is not to be compared with Soviet Russia, where the leaders of its collectivist r  gime propose to extend the governmental sphere until it includes practically all of the national income. Under the first Five-Year Plan, this sphere was widened from about 46 per cent in 1929 to approximately 83 per cent in 1931.

From the preceding figures, it is apparent that the economic and social policy which a government seeks to promote determines to a very large extent the amount of the national income it will absorb. In this respect the governments of the United

States and Soviet Russia stand almost at opposite poles. Except in war times and during periods of great economic stress, the United States has adhered to the doctrine of free competition, or *laissez faire*. It has built its social philosophy around private property. Practically all banking, trading, industrial, and other enterprises belong to private individuals or corporations, which work out their respective programs without regard for the government's financial plan, except to take into account tax obligations or occasional subsidies. The programs of these enterprises are unrelated in themselves, and any coordination among them, except where there happens to be definite organizational connection, is reached only through the limited control that may be exercised by the finance and credit institutions. The monetary requirements of the United States government, when thus fostering a general policy of individualism, can hardly be compared with those of Soviet Russia. The financial needs of the latter, with its socialistic régime under which all economic enterprises are either owned or controlled by the state, are naturally very much greater. The Soviet budget, as previously indicated, bears an entirely different relationship to the national income. Nowhere outside of Russia does the governmental budget play so great a part in the development of the country's economic life.

Economic and social planning on a national scale becomes imperative under any socialistic scheme of government, as Soviet Russia has very well demonstrated. Such planning may undoubtedly be employed to great advantage by governments which foster capitalism. Italy has ventured to combine state planning and supervision with capitalism. Roosevelt's program for the United States indicates that national economic and social planning, at least to some degree, is necessary in order to escape from the morass into which the country has been precipitated by the current depression. It seems highly improbable that the American government can continue in a planless way, while it is being called upon to supply billions of dollars to bolster up the collapsing credit of private enterprises. The

budget and administration of the government thus become closely intertwined with private finance and management; so much so, that the exercise of ordinary regulatory functions by the government no longer suffices from the standpoint of the public.

Productive and Unproductive Expenditures

Economists are wont to classify governmental expenditures under two general groups, productive and unproductive. They regard as productive expenditures those which help to develop or conserve the natural and human resources of the country, while unproductive expenditures accomplish neither of these results and are without any other economic advantages. The United States government, for example, expended during the fiscal year ended June 30, 1932, according to the annual report of the Treasury Department, a grand total of 5,597 millions of dollars. This amount is roughly allotted as follows: 1,012 millions to debt service, 973 millions to war veterans, 658 millions to national defense, 1,000 millions to emergencies growing out of the economic depression, and the remainder, or 1,954 millions, to the administration, postal service, and general purposes of the government. The amount expended for debt service represents almost entirely the burden of past wars, an unproductive though obligatory expenditure. The amount for veterans is also a burden of past wars, and may be regarded as being largely unproductive. The amount for defense may also be deemed unproductive in an economic sense, since peace-time armaments contribute nothing to existing wealth, and it is doubtful, in the long run, if they even protect it. The expenditure attributable to the depression has been made mainly to ameliorate unemployment conditions and to aid the agriculture, business, and industry of the country. Whether or not this expenditure will prove productive in any measure, is a matter for future determination. The remaining expenditure, amounting to about one-third of the total, may be considered to a large extent productive. Although even here,

the government sometimes works at cross-purposes. Conflicting policies produce situations in which one expenditure cancels the economic or social benefits supposedly derived from another. For example, the national government encourages foreign trade in the face of high tariff walls; helps to construct a great network of highways, the free use of which by competitive carriers drives the railroads toward bankruptcy; and promotes agricultural production, while spending millions in vain attempts to clear markets glutted with farm products.

The foregoing analysis, roughly sketched as it is, provides something of an index to what the American people are getting from the expenditures of their national government. It also indicates where reductions may be made in governmental costs with the least harm to national wealth and well-being. In fact, President Roosevelt has seized upon some of these objects in his recent program of retrenchment.

Turning to the state and local expenditures of the United States, we find that the state governments spent during 1932 about two and a half billions of dollars, while the local governments spent about seven and one-half billions. Of this ten billions of dollars, a much larger percentage may be regarded as being productive than is the case with the national expenditures, since the national government must bear the burden of war costs and peace-time armaments. Nevertheless, the state and local governments undoubtedly have considerable unproductive expenditures, indeed waste, because of outgrown units, overlapping jurisdictions, and duplicating agencies. They afford, therefore, a tremendous field for the simplification of governmental structures and the adaptation of more rational and more economical processes.

THE LEGAL GROUNDWORK OF THE BUDGET

In all countries the budget rests upon a legal groundwork, consisting usually of constitutional or statutory provisions. But it should be noted that in England, as Bastable says, "Budgetary regulations are really a mass of laws and conven-

tions, in which the latter are perhaps the more important." Custom therefore plays a stronger hand than law in English budgetary procedure. But in other countries, the regulations which have been left elastic in England, being supported merely by the sanction of public opinion, have been hardened into rigid constitutional or statutory provisions. Most of the recent constitutions carry provisions for the establishment of a budget system. Usually these are supplemented by statutory texts setting forth in more detail the form and procedure outlined in the constitution. The older constitutions sometimes contain very meager provisions relative to the budget, or practically none at all, as in the case of the constitution of the United States. The budget in these instances rests mainly upon a statutory basis. In France, for example, present budgetary practice goes back to the celebrated ordinances of de Villèle, adopted between 1822 and 1827.

The budget system of the United States government rests primarily on the national budget and accounting act of 1921. But behind this act, and extending back for perhaps a century, are many legal provisions which tend to supplement it. Some of these provisions have become more or less obsolete; others have been revived and invoked as direct aids to the operation of the budget and accounting act, notably the so-called "anti-deficiency act" of 1906. Executive orders and regulations in great numbers elucidate the provisions of the budget and accounting act. Many court decisions support or nullify questionable features of the prescribed budgetary procedure. Thus the budget system of the United States government has as its legal basis numerous statutory provisions, judicial interpretations, legislative rules, and administrative regulations.

Each of the forty-eight states of the United States has some legal provisions which serve as a basis for a budget system. In most states these provisions are statutory, the earliest ones being passed a score of years ago. At least a half-dozen states have constitutional provisions, Maryland having adopted the first budget amendment in 1916. Usually these amendments

are quite brief and are supported by statutory provisions outlining in some detail the budgetary procedure. In addition, there are in every state numerous financial laws, legislative rules, and administrative regulations, many of which antedate by a generation or more the strictly budgetary provisions. Often these have not been brought into harmony with later budgetary legislation, and therefore tend to hamper rather than to aid the development of satisfactory and workable budgetary procedure. In some states, notably New York, the legal provisions governing budgeting are supplemented by important court interpretations. As between the states, there is often a striking lack of uniformity in budgetary legislation, almost as much in some instances as between different countries. Even where one would expect some uniformity, that is, in the budgetary legislation of local governments within each state, one does not find it. While several states have enacted general budget laws applying to all the local units within their separate jurisdictions, these laws are not uniform as between the states. This situation is perhaps more exaggerated in the United States than in any other country of the world.

THE TECHNICAL ASPECTS OF THE BUDGET

It is rather futile to talk about the legal basis of the budget without any regard for the realities of budgetary practice. After all, practice is more important than laws are, since it determines to a very large extent the budgetary technique. Historically, the budget is the outcome of experimentation rather than the product of legal provisions. Laws are necessary only to give some permanence to budgetary practice when once developed. But the permanence which comes from legislation has its drawback in that it tends to set budgetary practice in a rigid frame, not allowing for future growth. This is particularly noticeable in the United States. American public officials regard legislation as being necessary in order to initiate any governmental practice, and when this legislation is passed,

it usually describes the methods to be used in great detail and with the utmost rigidity, even fixing penalties for variance from the prescribed lines. Of course it is possible, as the English have demonstrated, to maintain flexibility in budgetary laws.

If we examine the budgetary practices of the leading countries, we find that they exhibit certain technical aspects in common. In the first place, there are the estimates for the formulation of the budget. These estimates cover the expenditure requirements of the government and the forecast of its income. They are prepared in the light of past experience and checked against recorded financial data. From these estimates and supporting facts a balanced financial plan is worked out and set up according to a definite form. After this plan has been authorized, certain prescribed methods and devices are applied during the period of its execution. Lastly, there are generally an audit and a review of the resulting financial operations, which follow an established procedure.

These technical features of budgeting require talent and training not ordinarily found among the political officeholders, such as the executive and the members of the legislature. This fact accounts for the existence of trained staff agencies working under the direction of the executive or in conjunction with the legislature. In England, for example, the executive is served in formulating and executing the budget by the Treasury, a permanent staff of trained persons, and Parliament has at its command the Public Accounts Committee and the Comptroller and Auditor General with a trained staff of accountants, auditors, and investigators.

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In the course of this chapter, we have examined the political, economic, social, legal, and technical aspects of the budget, the first and last being by far the most important from the standpoint of our subsequent discussion. The political aspects, as we have already indicated, involve the fundamental considera-

tions of the relative rôles of the executive and the legislature in the budgetary process. We shall treat these rôles in the next two chapters. In the remaining chapters, save the last, we shall consider mainly the technical aspects of the budget in the light of current theory and practice.

CHAPTER III

THE RÔLE OF THE EXECUTIVE IN BUDGETING

IN THE preceding chapters we have indicated the general character and powers of the executive in modern governments. We have observed that the two most common forms of the executive are the cabinet and the president, which are part and parcel, respectively, of parliamentary and congressional types of government. We have also noted how the source of authority and the scope of powers of the cabinet are, in general, different from those of the president, and how the status of the cabinet varies from one parliamentary government to another. We have seen, too, something of the nature of the executive under existing dictatorships, at least in so far as the executive's powers are distinguishable from the other powers of government or from those of the dominant political party.

It is our purpose in this chapter to examine the rôle of the executive in budgetary procedure, and, in so doing, to discuss particularly the financial powers of the executive in parliamentary and congressional types of government. We shall attempt to explain the theoretical and practical basis of the executive's part in the formulation, authorization, and execution of the budget. Such restrictions or limitations as the different types of government, or variations within types, impose upon the budgetary authority and leadership of the executive will also be noted.

THE RÔLE OF THE EXECUTIVE IN THE FORMULATION OF THE BUDGET

From a theoretical standpoint, there are no valid arguments against the executive taking the initiative in the formulation of

the budget. Authorities the world over have generally agreed on this point. Stourm, in his famous treatise, *Le Budget*, has argued most convincingly for the preparation of the budget by the executive. "The executive alone," he says (American translation, p. 53), "can and should do this work. Situated at the center of the government, reaching through its hierarchical organization to the smallest unit, the executive more than anyone else is in a position to feel public needs and wishes, to appreciate their comparative merits, and accordingly to calculate the budgetary provisions which each of these needs and wishes justly deserves. Others may know certain details as well, possibly better than the executive, but nobody can have so extensive and impartial a view of the mass of these details, and no one can adjust the conflicting interests with so much competence and precision. Moreover, the executive, charged with the execution of the budget, is compelled, through concern for his future responsibility, to prepare the financial plan as well as possible." When Stourm wrote this passage in 1913, or perhaps earlier, he had in mind principally the budget systems of European countries, since that of the United States had not been established. But his generalizations were nevertheless based on ample experience. Jèze, in his authoritative work, *Théorie Générale du Budget*, declares (Pt. II, ch. i) that the executive should take the initiative in the formulation of the budget, since he is in a position to estimate expenditures and to forecast income so as to insure a properly balanced plan. English financial authorities, Bastable, Higgs, Shirras, and Young, for example, generally agree with the position of these eminent French writers. German authorities, from Wagner, von Stein, Seidler, and von Heckel to the present time, and Italian writers, notably Nitti and Flora, express very much the same opinion. American writers have generally taken a similar position, as is indicated by the endorsement of the so-called "executive budget" by such men as Adams, Cleveland, and Willoughby.

In actual practice, modern governments have as a rule made the executive responsible for the formulation of the budget, though in varying degrees, ranging all the way from preparation of an initial financial plan to full determination. The exceptions to this rule are to be found mainly among the subordinate units of certain national governments, particularly in some states and in many local governments of the United States. In these units the budget is prepared either by legislative committees or by other agencies, which are largely, if not entirely, independent of the executive. Sometimes local governments, in America especially, are without real executives, which explains the fact that other agencies are responsible for the preparation of the budget in such instances.

Ministerial Powers in Budgetary Planning

Under parliamentary governments, the cabinet or ministry usually enjoys broad authority in the formulation of the budget. At the same time, this authority carries with it heavy responsibility. If the cabinet is to maintain its political standing and continue in office, it must prepare a budget that not only will meet with the majority approval of parliament, but also will prove to be realizable after authorization. This is not easy to do, even under ordinary conditions; and during periods of economic depression it is often exceedingly difficult to accomplish with any measure of success.

According to English practice, the Cabinet is made completely responsible for budgetary initiative, and no estimate or proposal can be considered by Parliament without its endorsement. Young calls this "one of the sheet anchors of good government." He then goes on to say: "The balancing of revenue and expenditure is a nice and delicate operation; only the executive can have the double knowledge needed for it, of what is needed on the one hand and of how much it will cost, and on the other hand of how much the taxes are likely to yield." In framing a balanced financial plan, the Chancellor

of the Exchequer has wide powers of revision over the expenditure estimates, which enable him to control in a large measure the requests of the spending ministers. Any unreconciled differences between the demands of these ministers and the allowances of the Chancellor are left to the decision of the Cabinet and the Prime Minister. The Chancellor's main function, after the Gladstonian tradition, is to enforce economy on the spending departments. "As guardian of the people's purse and as the man who will have to find the money," says Young, "it is for him to see that no service is included that is not essential, and that every service that is included is provided for in the most economical manner." But this does not absolve the Cabinet as a whole of responsibility for the budget when presented to the House of Commons. Once the budget has been formulated by the Chancellor, the ministers all give it their united support.

Under the French system, the Ministry is responsible only for the preparation of the initial financial plan. Parliament reserves the right to change this plan in any way it sees fit, or to substitute a new plan. Until recently, the Ministry left the task of preparing the budgetary proposals in the hands of the Minister of Finance. But in 1930 the office of Minister of the Budget was established to supervise this task. For a short period in 1925 and again in 1929, according to Allix (*Traité élémentaire de Science des Finances et de Législation financière française*, 6^e éd., p. 263), the Prime Minister, purely for political reasons, experimented with this separation of cabinet duties. Although the separation has now been made a matter of law, Allix does not think it will be a permanent arrangement, since it has certain drawbacks, the most serious of which is divided responsibility. According to present practice, the Minister of the Budget and the Minister of Finance share responsibility for the preparation of the budget; they jointly consult the other members of the Ministry in attempting to set up a balanced financial plan. But in this undertaking, the Minister of Finance enjoys only a fraction—and the Minister

of the Budget much less—of the financial prestige of the English Chancellor of the Exchequer, as the other ministers do not consider themselves bound to stand by the budgetary proposals when presented to Parliament. Jèze regards this as a serious defect of the French system. He says that better coöperation on the part of all the ministers is needed, and that more authority should be vested in the minister responsible for balancing the budget.

The formulation of the budget under the second German Reich was the duty of the Ministry, the detailed work being delegated to the Minister of Finance. As a matter of fact, the Minister of Finance exercised rather wide powers in the revision of the expenditure estimates. When the changes made by him were important, involving the general policy, the ministers affected by them might protest and ask for a decision by the Ministry as a whole. Under such circumstances, the Minister of Finance was not overruled so long as he retained the support of the Chancellor, although the other ministers might vote solidly against him. He was, therefore, in a much stronger position than the French Minister of Finance. At the present time, it is not known what changes the Nazi régime may make in this procedure.

Among the other parliamentary governments of Europe, the cabinets usually exercise less authority in the formulation of the budget than that of England, although they frequently occupy stronger positions with regard to their budgetary proposals than does the French Ministry. The Swiss executive, while not strictly parliamentary in character, is perhaps the weakest in this respect. It usually performs very little more than clerical service in bringing the budgetary estimates before the finance committees of Parliament. Outside of Europe, the Japanese Ministry enjoys something of the prestige of the English Cabinet, inasmuch as it has authority to determine the figures that go into the budget for the Diet's consideration. The British dominions, it may be added, follow rather closely the English scheme of cabinet responsibility for the budget.

Presidential Powers in Framing Budgetary Proposals

As recently as two decades ago the formulation of the budget, or even the preparation of budgetary proposals, by the executive was considered an open question in the United States and often provoked heated arguments, particularly with reference to the state governments. These arguments involved the position of the executive in the government, his financial control over the semi-independent administrative agencies and the courts, and his relation to the legislature under the American version of the separation of powers. Those opposing budgetary initiative by the executive contended that this procedure placed improper restrictions on legislative powers, thus diminishing popular control over public finances, and at the same time endowed the executive with authority which was never intended under the American system. Advocates of budgetary initiative by the executive asserted that a well-prepared and properly balanced financial plan could not be expected from the legislature, as experience had already amply demonstrated. They argued for executive leadership and responsibility in budgetary and administrative matters, proposing such reorganization of governmental machinery and methods, within the existing constitutional structure, as seemed necessary to accomplish this end. They asked for coöperation between the executive and the legislature, especially in budget making, claiming that this was essential to the proper working of the government. After a time these ideas prevailed, and a movement was started in the state governments which has actually brought about this change in several states, but in varying degrees with respect to executive leadership and responsibility. This movement later reached the national government, and it still continues to hold the popular interest after nearly a score of years.

Today, as a result of this country-wide movement, the executive is vested with the authority to prepare budgetary proposals by the national government, by more than two-thirds of the

states, and by a great many of the municipalities of the United States. But the degree to which the executive exercises this authority varies greatly, especially among the governors of the several states. In a few states the governor can initiate budgetary proposals which are, to a considerable extent, binding on the legislature's action with respect to the budget, while in many more states his proposals are, except on rare occasions, purely advisory to the legislature. The President's proposals to Congress belong in the latter class. In no case do these proposals carry anything like the importance, from a legislative point of view, that attaches to the English Cabinet's budget. Perhaps half of the American states which require the governor to prepare budgetary proposals, compel him to work under such serious handicaps as to general fiscal powers and staff assistance that his budget-making authority is little more than nominal and his budgetary proposals are of no real consequence.

About a dozen American states continue to withhold from the governor authority to prepare budgetary proposals. In these states the budget is prepared either by a legislative committee or by a so-called budget commission, more commonly the latter. The budget commission generally consists of administrative officers, although in a few instances representatives of the legislature are also members. Usually the governor is a member of this commission. But he is without any real authority to determine the budgetary proposals, since he may be outvoted on every issue by the other members, who, as elective officials, are on an equal footing with him. In practice, the budget commission is a device which thwarts executive leadership in budgeting and tends to obscure responsibility for financial planning. Experience, however, shows that it lacks permanency, since in several states it has served merely as a step in the direction of concentrating the budget-making powers in the hands of the governor.

Certain limitations are placed on American executives, notably the President and the governors of several states, in revis-

ing expenditure estimates. These limitations are, in general, an expression of the tripartite division of powers, inasmuch as they usually forbid the executive to modify the estimated requirements for the legislature and the judiciary. But such limitations are of doubtful value, especially when the executive is permitted to exercise an item veto over the appropriations after they are voted by the legislature.

Among the more progressive of the Latin American governments, the president is normally responsible for the preparation of budgetary proposals. In the performance of this task he is assisted by his minister of finance, who ordinarily has authority to revise the expenditure estimates so as to produce a balanced financial plan. This plan, however, is merely advisory as to action on the part of the legislature, except in two or three governments.

Dictatorial Powers in Budgetary Formulation

Under the Fascist government of Italy, the budget is formulated at the direction of the "Chief of the Government," as Mussolini styles his position, though the Minister of Finance, assisted by the staff of his department, is directly in charge of the work. The estimates embody the instructions of Mussolini, and the recommendations of the Fascist Grand Council as well. Freedom in framing the budget is ordinarily as broad as Mussolini thinks necessary to meet the existing financial conditions.

The budget of Soviet Russia, even more than that of Italy, is formulated by a combination of governmental and political agencies. The Commissar for Finance has a considerable share in budget making. He works closely with the STO and its advisory group, the State Planning Commission, thus articulating the annual budget with the Five-Year Plan. Assisting these agencies is the powerful Political Bureau of the Communist Party, which plays an important part in fashioning the general policy of the budget.

THE EXECUTIVE'S PART IN THE AUTHORIZATION OF THE BUDGET

While the authorization of the budget is essentially a legislative function under existing political systems, the executive sometimes plays an important part in this stage of budgetary procedure. The authority of the executive in this rôle varies widely from country to country, ranging all the way from complete determination of the budget to mere suggestions for legislative consideration. It may, however, be roughly divided into three categories: (1) full authorization of the budget by the executive, with or without formal legislative sanction; (2) limited determination of the budget by the executive, always with legislative scrutiny and approval; and (3) preliminary or advisory budgetary proposals by the executive, subject to legislative initiative and action. The exercise of executive authority under the first category is found in autocratic régimes, or, under exceptional circumstances, in other polities; while such exercise of authority under the second and third categories commonly occurs in connection with democratic governments of the parliamentary and congressional types.

Full Executive Authorization of the Budget

Complete authorization of the budget by the executive, without even formal legislative sanction, may be regarded as an extraordinary procedure in modern governments. It does not usually happen under normal conditions or processes. It may come about through a *coup d'état*, or through the legislature temporarily handing over to the executive its power to authorize the budget, or through legislative failure to vote the budget at the proper time.

In Italy, under the Fascist régime, the budget is fully authorized by the executive, that is, by the Dictator, with the approval of the Fascist Grand Council. The legislature has practically lost its old parliamentary power to vote the budget.

It receives the budget from the Dictator, not for scrutiny and approval, but merely by way of review of what has already been done.

Under the government of Soviet Russia, it is difficult to say just how far the determination of the budget is an executive matter, since legislative and executive powers are not differentiated. It appears, however, that the budget is authorized practically as formulated. While the Presidium and the TsIK usually examine and approve it, the budget is never submitted to the All-Union Soviet Congress.

Under the Nazi régime in Germany, Parliament, in March, 1933, virtually handed over its budgetary and other constitutional powers to the Hitler government for a period of four years. During this period the executive is to be solely responsible for the authorization of the budget. Even before this time, Germany had practiced executive authorization in a somewhat different form. Between 1931 and 1933, President von Hindenburg found it necessary to establish the budget by decree, inasmuch as economic and political obstacles prevented Parliament from voting it.

Both parliamentary and congressional governments sometimes provide for executive determination of the budget in case the legislature fails to vote it by a specified time. For example, the revised constitution of Poland, adopted early in 1924, requires the President to declare the national budget effective by decree, in the event Parliament has not voted it within a specified time and before the opening of the fiscal year. Under a provision of Chile's budget law of 1925, the national budget, as formulated by the executive, becomes automatically effective on the first day of the fiscal year to which it applies, if the Chilean Congress has not already voted it. In the United States, the recently enacted state budget law of Rhode Island contains a similar provision, which permits executive determination of the budget in the event the legislature fails to act by a specified date. Should the legislature, however, act subsequently to that date, its appropriations supersede the author-

izations of the executive for the remainder of the fiscal period.

The foregoing provisions are not intended to give the executive any undue authority in budgeting, but are designed merely to hasten legislative action on the budget. Legislative deadlocks are not uncommon in some of the post-war governments of Europe, in the Latin American countries, and in the states and territories of the United States. When these occur, they often prevent the voting of the budget by the legislature at the proper time. Under such circumstances, a more common expedient than executive determination of the budget is the legal requirement that the budget last voted by the legislature shall be extended automatically to the next fiscal period.

Limited Executive Determination of the Budget

In the second category, legislative voting of the budget is always necessary to its authorization, but the executive proposals usually set definite limits on legislative action. This is the practice which has developed under the English budget system, now largely copied by the British dominions. The House of Commons, by a self-denying rule (No. 66) of long standing, has established a procedure under which budgetary initiative passes completely to the executive, no monetary proposals being considered by the House unless recommended by the Cabinet. Young regards the wisdom of this rule as being beyond dispute. He says that the executive's plans when once made "must be rigidly adhered to; were the balance of revenue and expenditure liable to be upset by any ill-informed, sudden, and comparatively irresponsible action on the part of a private member, the nation's finances must soon fall into wild disorder." This rule means, in point of fact, that no member of Parliament can propose or secure a grant of money for any purpose unless the Chancellor of the Exchequer agrees to it. The effect is to limit the action which the House may take on the executive's expenditure proposals to eliminations and reductions only, the maximum amounts being fixed by the

executive. In practice, the House rarely makes any downward revisions; and when it does, the Cabinet may decline to accept them, if they are at all important.

Under the Japanese system, the budget is largely determined by the executive, since certain expenditure requirements, amounting to approximately three-quarters of the total budget, may not be altered by the Diet without the concurrence of the executive. The remaining quarter of the budget requires the approval of the Diet.

In two South American countries, Chile and Colombia, the executive's budgetary proposals, under recent laws drafted by advisory finance commissions from the United States, set definite limits on legislative action with respect to the budget. The legislature may not increase the proposed expenditure items of the executive, or add new items, without his consent; it may only reduce or eliminate the proposed items. After having acted on the executive's proposals, the legislature may vote additional expenditures only when the total expenditures are not in excess of the total income as estimated by the executive. No reports are available as yet on the actual working of these provisions.

The limitations on legislative action which were carried into South American laws were doubtless copied from enactments already operative in certain states of the United States. The Maryland budget amendment, adopted in 1916, was the first to make such provision. Under this amendment, the legislature is limited to striking out or reducing the expenditure items contained in the governor's budget, except in the case of items for its own use, which it may either increase or diminish, or those for the judiciary, which it may only increase. The framers of the Maryland amendment got their ideas largely from similar provisions contained in a proposed constitution for New York State, which was defeated at the polls in November, 1915. The budgetary section of this constitution, however, was later adopted (1927) as an amendment to the existing constitution, but in a somewhat modified form, the legislature being permitted to increase the governor's expenditure

proposals by adding separate items which the governor may later strike out.

The limiting provisions of the Maryland and the New York budget amendments, although copied by several other states, have not proved popular. In many cases they have been repealed. The experience of Maryland and New York with them has been far from satisfactory. On several occasions the Maryland legislature has found a way around the constitutional restrictions placed on its action by inducing the governor to modify or supplement his original budgetary proposals. Thus, in a way, we have an illustration of the American adage concerning the small importance of the constitution among political friends! In New York, the governor and the legislature clashed almost immediately over the executive's budgetary proposals, especially his itemization of expenditures. A deadlock was finally avoided by an agreement to submit the matter to the state courts for adjudication. The decision in this case (*People vs. Tremaine*, 252 N. Y. 27), handed down in November, 1929, while slightly strengthening the governor's position with respect to budgetary initiative, very materially weakened his authority in the execution of the budget. Thus the matter stands today, nothing further having been done to develop executive initiative, as evidently intended under the budget amendment, or to resolve deadlocks arising out of conflicts between the executive and the legislature. The general effect of the court's decision, which emphasized the separation of powers, has been to drive the governor and the legislature apart rather than to draw them into working coöperation. And so this decision may be said to have contributed nothing toward the solution of the most important problem of budgetary development under the American system of government.

Advisory Budgetary Proposals by the Executive

In several countries the budgetary proposals of the executive, under ordinary conditions, are largely tentative, that is, advisory as to initiative and action on the part of the legisla-

ture. When acting on the budget, the legislature is not bound, either by law or custom, to adhere to these proposals, or to accept them as a full measure of governmental requirements. It may disregard them entirely, and devise financial plans of its own through one or more of its committees. But legislative action of such drastic nature seldom results, except when produced by political conflict. Disregard of the executive's budgetary proposals under parliamentary government is usually a serious matter, resulting either in the fall of the executive or the dissolution of parliament. Under congressional government, however, it assumes a different aspect, owing to the complete independence of the executive and the legislature. If the legislature rejects the proposals of the executive and the latter stands firmly on his rights, the outcome is likely to be a deadlock, resulting in legislative failure to authorize the budget. But this extreme state of affairs is in most cases avoided either through political bargaining or because of the influence of party ties between the executive and the legislature. Indeed, when the executive and the majority of the legislature are of the same political party, as frequently happens under American government, the executive is generally in such an influential position as to insure that his budgetary proposals will receive fair consideration by the legislature.

Among parliamentary governments, the French executive seems to suffer most through having its budgetary proposals disregarded by the legislature. Having practically lost its power of dissolution through disuse, the executive has no direct means of compelling Parliament to respect its proposals. As Jèze expresses it: "The French chambers can vote expenditures as they please, for the objects which they consider necessary to the country, in the amounts which they deem appropriate for the public needs. They may create new objects of expenditure and abolish old ones." The Ministry's budget, therefore, is largely advisory to the powerful finance committees of the two chambers. The Ministry can sometimes overrule these committees if it is sufficiently persistent and determined, but only so long

as it has a clear majority in the Chamber of Deputies. More often than not, however, this effort on the part of the Ministry to stand its ground diminishes its support and leads to its forced retirement. This was thrice the case during 1933, when the Paul-Boncour, Deladier, and Sarraut Cabinets were defeated on the budget.

The budgetary proposals of the executive are not legally binding on the legislature under most congressional governments, the few exceptions having already been noted. In the national government and a majority of the state governments of the United States, these proposals usually carry no more weight than the political circumstances of the moment happen to lend to them. This is also true in many of the Latin American governments.

The executive's veto power over financial measures is a factor which should be noted in this connection. While it is in effect purely negative, it is often of considerable consequence in determining legislative action on the budgetary proposals of the executive. In the exercise of this power, the executive may refuse to sign an appropriation or revenue bill which has been duly enacted by the legislature, thus making it invalid unless again passed by that body, often with more than an ordinary majority. The veto power, to this extent, is a constitutional grant to the executive in practically all congressional governments. While the President of the United States may veto appropriation bills only *in toto*, the governors of more than half the states may veto items in such bills and, in a few instances, reduce these items. The item veto, when including reduction, has been accepted in some states as a practical alternative to limiting the legislature to the governor's proposals in its action on the budget, which in effect amounts to the exercise of the item veto by the legislature. Some authorities have regarded the executive's veto power, especially when used at the end of a legislative session or following adjournment, as a more or less arbitrary exercise of authority without the possibility of legislative review. Be that as it may, we can safely

say that the veto power is not constructive in its effect on financial planning, and that it does not assist in bringing about coöperation between the executive and the legislature. It also presumes, after the American practice, that the administration is a sort of fourth branch of the government, which may spend the appropriations voted by the legislature without any direct control by the executive during the fiscal period. We shall discuss this aspect in Chapter VIII.

THE EXECUTIVE'S RÔLE IN THE EXECUTION OF THE BUDGET

Financial authorities are generally agreed that the execution, as well as the formulation, of the budget is essentially a task for the executive. Stourm, in his picturesque style, indicated as much in discussing the execution of the budget in his celebrated work (*Amer. tr.*, p. 391) thus: "From the befogged atmosphere of the legislative body where the fiscal law is devised, we enter the calmer sphere of the executive." Although he was speaking particularly of French practice, his statement was at the same time intended as a generalization. And so we find the executive assuming responsibility for seeing that the budget, as adopted by the legislature or otherwise authorized, is properly carried out. This practice is now almost universal among modern governments. The responsibility of the executive in the realization of the budget usually varies in degree as befits the general governmental pattern and the organization of the administration under it.

The administrative organization best suited to the execution of the budget, as experience has amply shown, is one that focuses responsibility on the executive through the establishment of a unified system which sets up definite lines of authority with respect to financial operations. Under parliamentary government, this arrangement is attained by placing the general responsibility for carrying on the work of the administration on the shoulders of the cabinet or ministry. Direct contact between the cabinet and the administration is secured by assigning the supervision of the major departments of the gov-

ernment to the individual ministers. Usually the most important of these departments is the one charged with the management of the financial system. It is, in many respects, the hub of the administrative wheel. Upon the head of this department rests the immediate responsibility for seeing that the budget is properly executed. Under congressional government, the single executive assumes general responsibility for the work of the administration, although this responsibility is sometimes more apparent than real. To assist in supervising this work, he commissions the members of his so-called cabinet (a small group of subordinate officers, chosen by him for political and administrative reasons) to act as heads of the more important administrative departments. One of these departments is concerned with the financial functions, and its head shares, in some measure, the executive's responsibility for carrying out the budget. But the head of this department is never relatively as important in the congressional scheme as the minister in charge of finance under the parliamentary system. The reasons for this will appear later under Chapter VIII. Centralized direction and adequate fiscal machinery are just as necessary to the proper execution of the budget under other types of government, as they are under the parliamentary and congressional forms.

The success of the executive in the realization of the budget under any form of government depends principally upon two factors: (1) the executive's position and authority in the administration; and (2) freedom from needless restrictions on executive powers, which are found mainly under congressional governments.

The Executive's Position and Authority in the Administration

Under dictatorships, the position of the executive in the administration is usually more absolute and his authority over it less hampered than in other forms of modern government. This is not surprising, since the executive powers inhere in the dictator, or in the political party which supports him, rather

than being derived from the legislative body or the electorate. The dictator, therefore, lacks neither the standing nor the authority which is necessary to execute the budget in the fullest measure. If he is handicapped in his efforts in this direction, it is not for want of the requisite authority but rather because of obsolescent governmental framework, poor administrative methods, and untrained and unreliable personnel. But even these he may in time be able to remedy.

Under parliamentary government, the executive stands at the head of the administration and usually derives from parliament the powers essential for the execution of the budget. As exemplified in the English system, the executive has complete control; it determines the financial requirements of the various administrative agencies in the light of current conditions, and the continuous working relationship between the executive and the legislature prevents these agencies from applying to the legislative body to have the executive orders set aside or changed—a practice found in congressional government, especially in the United States. Under the French system, the Ministry experiences certain difficulties in the execution of the budget due to ministerial jealousies and prerogatives. Each minister attempts to control his own expenditures, as we shall explain in Chapter VIII; there is no strong central finance department comparable to the English Treasury. Likewise, in many of the other parliamentary governments of Europe the ministries often encounter difficulties in budgetary execution of the nature of those in France.

Under congressional government, and with specific reference to the United States, the judicial application of the doctrine of the separation of powers has seriously limited the standing and authority of the executive in the administration. For more than a century, American constitutional practice tended to separate the executive and the administration, making the latter in effect directly responsible to the legislature. Only within recent years has an effort been made to change this situation, and to give the

executive some controlling authority over the administration, particularly in financial matters. This effort may be attributed largely to the widespread movement to establish the budget system. It was apparent to the early American sponsors of the budget that financial planning availed nothing without effective execution, and that such execution was not likely without the establishment of executive leadership over the administration. They therefore advised a reorganization of the scheme of administration to bring the several departments and agencies together and to group them functionally under the direct control of the executive. They also proposed a definite working relationship between the executive and the legislature. While these recommendations have, as yet, been largely disregarded by the national government, they have been carried out, at least in part, by several state governments. Administrative reorganization in these states, coupled with the so-called short ballot reform, has unified the executive (still plural, in effect, in many states) and has placed the governor in a position where he may exercise authority in the execution of the budget. But something more is needed in nearly every instance. In the future, whenever the legislature delegates or assigns powers with respect to the execution of the budget, it should confer them upon the chief executive rather than upon the several administrative officers. This is an essential step toward the proper realization of the budget under the congressional form. Financial authorities are now generally agreed on this point. We shall discuss the desired relationship between the executive and the legislature in the next chapter.

Needless Restrictions on Executive Powers

Not only is the executive thus limited with respect to his standing and authority in the administration, both in the national government of the United States and the governments of many of the states, but he is also seriously restricted by legislative provisions, and sometimes by popular mandates

and court decisions. For decades it has been the American practice for the legislative body to control the execution of the budget, or at least to attempt such control, by specifying in detail exactly what things were to be done by the administrative agencies and the means that they were to employ in doing them. We refer to the highly itemized appropriation act. Congress, as a rule, still persists in the voting of such acts, and so do many of the state legislatures. A few state legislatures, however, have abandoned detailed appropriations in favor of certain major items, sometimes with supporting schedules after the English style, and have placed the expenditure of these items under the control of the executive. But such changes have been forestalled in New York and some other states, for the time being at any rate, by constitutional provisions and court interpretations.

Another serious restriction on executive authority in the United States is the prevailing notion that appropriations are made directly to the administrative agencies and may be expended by them without let or hindrance on the part of the executive. In practice, this means that the appropriations are mandatory and that the executive may not curtail their expenditure, even when he thinks it necessary because of the financial condition of the government. This scheme lacks the flexibility of the English system under which the appropriations made by Parliament are merely grants to be expended at the will and under the control of the executive. While some American state legislatures are experimenting in the direction of giving the executive control over the expenditure of appropriations, Congress still adheres to the original notion, being persuaded to depart from it only under the stress of great emergency.

The American executive is often further restricted in the execution of the budget by the authority of a separate and independent fiscal officer, frequently with a constitutional status, who has power to allow or disallow all expenditure from appropriations. By comparison, the English executive enjoys

on the whole much greater freedom in the realization of the budget, but in the end is held more rigidly to account by the House of Commons for what it has done. This method seems much more desirable, and is quite possible of attainment under the American form of government.

CHAPTER IV

THE RÔLE OF THE LEGISLATURE IN BUDGETING

THE rôle of the legislature in budgeting attains its greatest significance under the parliamentary and congressional forms of government. While these forms, as we observed in Chapter II, fix a constitutional frame in which the legislature must work, they nevertheless allow that body more authority and freedom of action than it is accorded under other forms of modern government. The existing dictatorships, whether under the control of an individual or a dominant political party, usually place severe limitations on legislative authority. Indeed, they often curtail legislative action on the budget to such a great degree that it is of little, or no, importance.

LEGISLATIVE PARTICIPATION IN THE FORMULATION
OF THE BUDGET

In theory the formulation of the budget is not a legislative function; but practice has at times made it so. This happened in France on more than one occasion, according to Jèze, while the government was rapidly changing in form during the first three-quarters of the nineteenth century. It was also an uninterrupted practice in the United States for a period of more than a century, during which time the preparation of the budget, or what passed for the budget, was almost entirely in the hands of the legislature. Until 1921, Congress, through its several standing committees on financial matters, prepared all national proposals for appropriations and revenues. The same method was in vogue in the various state legislatures until about 1912, when the movement for budgetary reform began to make headway in the states.

Present-day practice, in both parliamentary and congressional governments, tends to focus the attention of the legislature more and more upon the examination, criticism, and approval of budgetary proposals submitted by the executive. Such a development is logical, since the legislature can function more effectively at this point than at the stage of formulation. Indeed, Jèze holds that the legislature in all democratic states is likely to be wasteful, incompetent, and irresponsible most of the time, and that it should not, therefore, propose the financial plan; he thinks it should simply review this plan, as formulated by the executive, and vote the necessary financial measures.

But such strict limitations on the province of the legislature as Jèze suggests, are observed only in the parliamentary governments of the British Empire. For example, the English Parliament acts at all times in such a way as to maintain the integrity of the executive's budget, and for this reason it has limited its action on the budget to the point of rarely modifying the Cabinet's proposals. In other parliamentary governments, the legislature usually exercises greater freedom of action. Under the French system, where this freedom is perhaps least restricted, the powerful finance committees of the houses, particularly of the Chamber of Deputies, often make modifications in the executive's budgetary proposals which are equivalent to legislative participation in budget making.

In congressional government, on the other hand, the legislature commonly participates to some degree in the formulation of the budget. Such participation usually comes after an initial budget has been prepared and submitted by the executive. It is expressed through legislative modification of the budget, sometimes to the extent of practically remaking the financial plan proposed by the executive. This practice prevails in the national government and in many state governments of the United States; likewise, in most of the Latin American governments. There are some exceptions, however, which we have noted in the previous chapter. In these cases,

the legislature is required, often by constitutional provision, to keep within certain limits in revising the executive's budget.

There are still some instances among American states where representatives or committees of the legislature join with the governor in formulating the initial budget, but they are becoming more and more rare. Such practice has usually served to restrain the governor's initiative in budget making, and indeed was so intended; but it has also provided a means by which the governor can, if he wishes, dodge responsibility for the budgetary proposals submitted to the legislature.

THE LEGISLATURE'S RÔLE IN THE AUTHORIZATION OF THE BUDGET

The authorization of the budget, or authorization and voting, as English practice makes it, is predominantly a function of the legislature. Indeed, it must be so under all parliamentary and congressional forms of government; otherwise, these forms lose perhaps their most fundamental characteristic. The long struggle in the development of representative government indicates as much. We have already seen in Chapters I and II how the authorization and voting of the budget, or the "control of the public purse strings," has been inseparably linked with the growth of modern legislative bodies.

But the rôle of the legislature in the authorization of the budget is by no means uniform among representative governments; it varies from country to country, even under the same general type of governmental organization. Legislative authority, as applied in the voting of the budget, is frequently hedged about by limitations; and legislative action in this respect is sometimes subjected to considerable restraint.

The Extent of Legislative Authority

Legislative authority in the determination of the budget may be limited by the executive, by the legislature itself, by popular will, or it may be practically unrestricted. Executive limitations belong usually to the autocratic forms of government.

Under the Italian dictatorship, for example, the legislature exercises its power of budgetary approval at the direction of the executive and in harmony with his wishes. Its authority, as we have indicated in the previous chapter, is practically limited to a mere review of the budget as already determined by the executive.

Under the English parliamentary system, the legislature has imposed certain limitations of authority upon itself. It has bound itself, by its own rules, to respect, almost to the letter, the budgetary proposals submitted by the executive, especially those relating to expenditures. It may not modify expenditure proposals, except to reduce them (a power which it rarely exercises), without the executive's consent. To increase or change these proposals is to indicate a lack of confidence in the executive, which immediately precipitates a political crisis in the government. The revenue or tax proposals of the executive, however, are not regarded in exactly the same light. If the legislature chooses, it may change the details of these proposals without bringing about a resignation of the Cabinet. This practice has an interesting historical background. It goes back to the relationship which existed between the kings and the earlier parliaments, when the King said: "If you give me the money, please yourselves how you find it."

Under the congressional system, as developed in the United States, limitations are sometimes imposed upon the budget-voting authority of the legislature by the will of the people, through the medium of constitutional provisions or amendments. Some of the state budget amendments, notably those of Maryland and New York, contain such limitations. The legislature, as we have explained in Chapter III, is not permitted to increase the expenditure proposals contained in the governor's budget; it can only strike out or reduce (with certain exceptions) the items in these proposals. Sometimes, though not often, state legislatures have been induced to pass statutes containing limitations of this general character, but usually these have soon become dead letters because succeeding legisla-

tures seldom felt in the same self-denying mood. Several states apply another type of limitation, also of a constitutional character, which has the effect of confining the legislature's attention solely to the governor's budgetary proposals until they have been disposed of. The legislature may then and only then, consider special appropriation bills introduced by its members. Even so, each of these bills must be for a definite purpose, and must provide the means of financing itself, at least when the budgetary surplus is insufficient. When voted by the legislature, such bills must usually have the approval of the governor in order to become valid charges against the state treasury, although this approval may not be required for the regular appropriation bill, or bills, voted in support of the governor's budget.

But ordinarily the legislature, under the congressional system, enjoys broad, or almost unlimited, power in the authorization of the budget. This is the case in the national government and in many of the state governments of the United States. Because of the exercise of this power in a grossly political way, as exemplified by the American "pork barrel," the general tendency in recent years has been toward curbing the legislature in some manner, as noted in the preceding paragraph. But this has had little effect, so far, on the general attitude of the legislature, which still considers itself the sole repository of budgetary authority, and consequently respects no financial proposals except those that come from its committees. This state of affairs is unfortunate from the standpoint of budgetary improvement, since it delays the consummation of executive initiative in budget making, and places barriers in the way of satisfactory collaboration between the executive and the legislature in the entire budgetary process.

Restraints on Legislative Action

Under English practice, any legislative action which threatens to modify or change the executive's budget can be forestalled by the Cabinet and, if it desires, carried to the elec-

torate by simply dissolving Parliament. The mere threat of dissolution by the Prime Minister is usually enough to keep the recalcitrant legislative members in line; they are always afraid of the risk and expense of a general election. Some English financial authorities have criticized the system on this account, claiming that it was designed to give the Cabinet the whip hand over the members of Parliament, so much so, indeed, that it has failed "to secure a proper balance between the concentration of power and the opportunity for discussion and criticism." Says Higgs (*Financial Reform*, p. 25): "So you have the budget prepared and laid before the House of Commons and the country, and then, when its defects become apparent, you find that you cannot get them altered or amended, because the prestige of the Government is involved."

But contrast this system with that of France, where Parliament often goes to the other extreme, being allowed virtually to remake the Ministry's budget, if it so desires. And the Ministry cannot call Parliament's hand on the budget; it must either submit to legislative changes or resign. Judging from recent French experience,—Parliament having forced one Ministry after another to resign and, at the same time, having practically disregarded the executive proposals looking toward a balanced budget,—it would seem that the English system, even with its shortcomings, is to be preferred from the standpoint of steady and reliable performance. Indeed, former Premier Tardieu recently recommended that the French constitution be amended to give the executive the right of parliamentary dissolution, and also to deprive Parliament of financial initiative in opening new *crédits* and in reducing taxes.

Congressional governments have, as a rule, placed very few restraints on legislative action in the authorization or voting of the budget. The Congress and many of the state legislatures of the United States are practically free to act on the executive's budget in any way they, or their committees, may choose. Ordinarily the executive has no means of directing or speeding up legislative action on the budget, except by political influ-

ence, and then only when he happens to belong to the same party as the majority of the legislature. Dissolution of the legislature is denied to the executive under the congressional system. His chief resort, in case the legislature tramples on his budget plans, is to use his veto power, which is at best unsatisfactory, as we have explained in the previous chapter. Its use, even sparingly, tends to widen rather than to close the gap which constitutionally exists between the executive and the legislature.

Coöperation between the Legislature and the Executive

One of the great weaknesses of congressional government is generally conceded to be the lack of coöperation, or close working relationship, between the legislature and the executive. This is especially noticeable in the legislative handling of the budget. Remedies for this situation, as it exists in the United States, have been proposed on different occasions for the past fifty years or more. Shortly after the Civil War, leaders of both major political parties recommended that the heads of departments, the so-called cabinet members, be given seats in each house of Congress with an opportunity to join in the debate. This recommendation was reiterated in a report of a select committee of the Senate in the early eighties. A bill was proposed by this committee and certain rules were outlined for adoption by the Senate and the House. But Congress took no action in the matter. Later President Taft made a similar recommendation in connection with the report of his Commission on Economy and Efficiency. "Such an arrangement," he said, "would greatly facilitate the business of Congress in getting at the facts through the interrogation of members of the Administration on the floor of each house; and it would give the members of each house a clear conception of the needs of the government as the Administration thinks them to be, backed by arguments of men who must by reason of their duties know what they are talking about. Indeed the very

function thus added to the others of the cabinet members will stimulate them to a closer attention to their departments and a more intimate knowledge of their working." F. A. Cleveland, then serving as chairman of the Taft Commission, expressed his hearty approval of this recommendation, and suggested extending it to include the President, as well as the members of the cabinet. He said, "The President and the cabinet should take the initiative [in budgeting] and then stand the test of open public questioning, criticism, and discussion before Congress. . . ." However, when the budget and accounting act was finally passed in 1921, Congress did nothing about this important proposal, and since that time no move has been made toward its adoption. Congress does not seem to realize that perhaps no single move would do more to restore public interest in congressional debates, and to bring about the proper intimacy between the legislative representatives and the executive agents of the people.

Attempts have also been made to incorporate this idea of legislative-executive coöperation in the procedure of the American state governments. Cleveland, on behalf of the New York Bureau of Municipal Research, proposed it to the constitutional convention of New York which met in 1915. As a result, a provision requiring the governor and his principal officers to appear before the legislature to defend the budget and to answer questions concerning it, was incorporated in the revised constitution, later defeated by the electorate. When the Maryland budget amendment was adopted in 1916, it carried a provision of this general character; and so did the New York budget amendment, as finally approved by the people in 1927. However, this provision has become practically a dead letter in both states, owing to the failure of the legislature to establish the necessary procedure to carry it into effect. The electorate proposes, and the legislature disposes. And so it goes, the legislature deliberately thwarting the expressed will of the people.

LEGISLATIVE ATTEMPTS AT CONTROL OVER THE EXECUTION
OF THE BUDGET

Although the carrying out of the budget is now generally regarded as being essentially a task for the executive, it was a long time before the legislature, even under parliamentary government, actually viewed the matter in this light. In England, until less than a century ago, the House of Commons attempted to control expenditure by placing certain restrictions on the issue of money from the exchequer, instead of ascertaining how the money had actually been spent. It was not until after 1861, when Gladstone established the Public Accounts Committee, that the House of Commons definitely changed from attempting to supervise expenditure currently to the more effective rôle of checking the results of expenditure. To assist the House in this new rôle, Gladstone set up in connection with the Committee an auditing and investigating agent, the Comptroller and Auditor General. Since that time, Parliament has ceased to meddle in the current administration of the budget, and has turned its efforts toward establishing financial accountability on the part of the executive. As Durell points out (*Parliamentary Grants*, p. 21), the control of Parliament over the course of expenditure is now limited to its control over the executive. "Any other system," he asserts, "would be subversive of administrative responsibility."

In other parliamentary governments, the legislative sphere with respect to the execution of the budget is not, generally speaking, so clearly defined as in England. Under French procedure, for example, the legislature still persists in limiting executive action, in one way or another, in carrying out the budget. Aside from restricting provisions and details attached to the authorized *crédits*, or appropriations, Parliament has lately required the chairmen (*rapporteurs généraux*) of the two finance committees of the chambers to follow and control the expenditure of these *crédits* from month to month. Unquestion-

ably, this is a task which Parliament is not suited to perform; and besides, as Allix points out, it approaches the usurpation of executive authority by the chambers.

Under congressional governments, the legislature as a rule attempts to enforce control, either directly or indirectly, over the execution of the budget. This is notably true in the United States. Perhaps it is due more than anything else to the fact that Congress and a majority of the state legislatures continue to follow the same procedure which they used prior to the adoption of budgetary methods. These methods were simply grafted on the existing system, without modifying the legislative practice to fit them. Hence, the legislature still more or less ignores the executive, as it was accustomed to do when it had practically a free hand in budgeting. It often appropriates directly to the administrative departments and agencies, without adequate provisions for budgetary control by the executive. It also makes highly itemized appropriations and attaches numerous provisions with respect to their expenditure, thus limiting the flexibility and curtailing the administration of the budget. It even goes so far, in some cases, as to empower certain of its members or committees to supervise the actual expenditure of the appropriations, including the making of all transfers between the appropriations. By such practices, the legislature undoubtedly oversteps its province in budgeting, and places restrictions, which should not exist, upon the execution of the budget.

Since we shall discuss these practices at some length in Chapter VIII, it is sufficient here merely to state our conclusions. Instead of the American legislature attempting, by one method or another, to control the expenditure of appropriations, a task which it is unfitted to perform, it should charge the executive in general terms with the complete realization of the budget and should thereafter concern itself with the enforcement of executive accountability. By establishing the proper procedure, as we shall see presently, the legislature can

enforce accountability on the part of the executive and, at the same time, dispense with all hampering restrictions on executive and administrative action. Indeed, if it will only cast aside the hackneyed traditions that have sprung from legislative practices of the last century in the United States, it is well suited to the task of being a critic of the way the executive applies the appropriations.

THE LEGISLATURE'S RÔLE IN ENFORCING ACCOUNTABILITY FOR THE BUDGET

The enforcement of executive accountability for carrying out the budget is definitely within the sphere of the legislature in both parliamentary and congressional governments. English practice, in this respect, is perhaps the most satisfactory among parliamentary governments. It is based upon Gladstone's formula, namely, that Parliament should not attempt to watch the spending of money from day to day throughout the year, but that it should "require at the end of the year an account of how the money has been spent, and evidence that it has been spent on the purpose to which it was allocated by the votes in supply and appropriated in the appropriation act." The two agencies noted above, the Comptroller and Auditor General and the Public Accounts Committee, enable Parliament to bring the executive to account on the budget. The Comptroller and Auditor General, who is independent of the executive and responsible solely to the House of Commons, conducts a post-audit of the accounts of the administrative departments and reports his findings in detail to the Public Accounts Committee. This Committee is also responsible to the House of Commons, its chairman and often a majority of its members representing the "opposition" in that body. It has authority to conduct hearings on the findings of the Comptroller and Auditor General and to examine accounting and other administrative officers with regard to payments. Having concluded its examination, the Committee reports to Parliament. "Knowing that there is

such a reckoning before him, an official spender," according to Young (*The System of National Finance*, p. 125), "dares neither to spend more than he is authorized to spend, nor to divert money from the purposes to which Parliament appropriated it. Were he to do so, he would be detected at the *ex post facto* revision of his expenditure, and a surcharge would be the penalty for his illegal act."

Under congressional governments, the legislature very largely neglects to bring the executive to account on the budget, notably so in the United States. One reason for this is the existence of legislative traditions, already mentioned; another is the lack of suitable agencies and methods. These agencies and methods are discussed at length in Chapter IX, so we need not go into details here. Briefly, they include review and criticism, by a special legislative committee, of the findings of a postaudit conducted by an agency of the legislature; then, study and approval of this committee's report by the legislature as a whole; and, lastly, appropriate steps on the part of the legislature to enforce its decisions with respect to the executive, whenever the latter has failed in any particular to carry out the budget as authorized.

Mention should also be made of certain legislative practices which are at times employed in connection with, or as substitutes for, a system of legislative postaudit and review such as we have just outlined. These practices are usually designated as "withholding supply," interpellation, and special legislative investigation.

"Withholding supply" comes from old English procedure, when the Committee of Supply refused to grant the requests for appropriations until the members of the House of Commons had had an opportunity to state their grievances. Even today, "grievance before supply" is recognized in parliamentary practice, although its constitutional purpose no longer exists and its utility is questionable. "The best thing that can be said for it," according to Young, "is that it gives a private member

one of his few chances of raising a subject and of bringing a minister to book over an abuse, since the choice of subject depends on the ballot and not on the whips." Such opportunities for criticism of the executive, however, do not exist under the American system. Inasmuch as grievances cannot be so stated either in Congress or in state legislatures, the discussion of the budget by these bodies is generally confined to particular items of appropriation or to proposals for new taxes.

Interpellation is designed to enforce cabinet responsibility through direct questioning of the ministers on the legislative floor with the idea of precipitating a discussion and a vote. It is employed principally in France, where the Chamber of Deputies has often used it as a direct means of overthrowing the Cabinet, although it may not be applied in the regular course of budget debates. Because of the inadequacy of the French postaudit system (see Chapter IX), interpellation is frequently resorted to in an attempt to accomplish something of the same results as those obtained through the Public Accounts Committee in England.

It is, of course, not possible to employ interpellation under congressional government, since the executive may not be overthrown by an adverse vote of the legislature. But it seems desirable to utilize what is known in England as the "question hour." This is a regular period during each day's session when the members of the House of Commons may ask the ministers questions, which they must reply to from the floor. Such procedure, if adopted in the United States, would oblige Congress to give the privileges of the floor to the President and his chief administrative officers, as we have suggested earlier in this chapter.

Special legislative investigation offers the only means, under congressional government, of warning or censuring the independent executive with respect to his management of governmental affairs. In the United States Congress, the Senate acts almost continuously as a critic of the executive, and in that

rôle, says Lindsay Rogers, "does its most notable work." But senatorial investigations have their drawbacks; they are costly, more or less sporadic, and usually haphazard in method. When applied to financial matters, they are at best a poor substitute for an orderly system of postaudit and congressional review, such as that suggested in Chapter IX, as a means of enforcing executive accountability for the budget.

CHAPTER V

THE BUDGET AS A FINANCIAL PLAN

In this chapter we shall consider the budget as a financial plan for the operation of the government, discussing its essential features and outlining its form and contents. We shall also examine the relation of the financing of public enterprises to the general budget of the government.

THE ESSENTIAL FEATURES OF THE BUDGET

The budget, as a financial plan, has three essential features: equilibrium, comprehensiveness and annuality. It is a balanced plan; it includes all the financial requirements of the government; and it covers a definite period, usually a year. We shall now discuss these features as they appear in theory and practice.

Equilibrium—A Balanced Plan

When we consider the budget, as a financial plan, equilibrium, or balance, is undoubtedly its most essential feature. Writers on the budget are generally agreed on this point. For example, Willoughby (*The Problem of a National Budget*, p. 6) says: "The balancing of revenues and expenditures is rightly deemed to be of the essence of a budget. In this way only can the relationship between the two sides of the national accounts be established, and the effect of the action had, or proposed, upon the financial situation of the government be made known."

Not only do financial authorities and economists hold that

"balancing the budget," as it is popularly called, is basic in any sound system of public finance, but statesmen, politicians, and administrators also recognize this fact. Many of the latter group have so expressed themselves during the trying times through which the governments of the world have passed since 1930. The British Chancellors of the Exchequer, Snowden and Chamberlain, have emphasized the importance of budgetary equilibrium in their budget speeches before the House of Commons during the past three or four years. The ministers of finance in most of the British dominions have done likewise. The French Ministry has staked its continuance in office on proposals for a balanced budget, and during 1933 alone Parliament thrice defeated it on these proposals. The President of the United States has not overlooked the balancing of the budget in his messages to Congress. Other examples may be cited, but these are sufficient to indicate the general attitude taken by cabinets, ministers of finance, and presidents toward budgetary equilibrium.

Aside from the political consequences of an unbalanced budget, such as the overthrow of cabinets and the defeat of parties in power, there are certain financial implications and economic results which are perhaps even more important from the popular viewpoint. An unbalanced budget is generally looked upon as a symptom of financial instability in a government. One or two such budgets may not be regarded as a serious matter, but when a government fails to balance one after another of its budgets, serious financial and economic consequences are almost certain to follow. These usually manifest themselves through business uncertainty and industrial disorder. An adjustment at this late stage may put an undue strain on the public credit, or overburden the taxpayers, or both. As a last resort, national governments may produce monetary inflation, which, if uncontrolled, will terminate in financial disaster for the country; while state and local governments may take refuge in debt repudiation, leading ultimately to insolvency.

Considering its great importance in the economy of any government, we may well ask: what is a balanced budget? While this question may be easy to answer in theory, it is rather difficult to explain in practice. Theoretically, a balanced budget is one in which the anticipated income exactly offsets the estimated expenditures of the government. But this condition is never attained in actual practice, due to the complexities of modern government and to the inaccuracies, however small, that necessarily creep into budgetary estimating. In order, therefore, to provide for such contingencies, the budget is usually balanced so as to show an estimated surplus at the end of the financial period. Hence, in the nature of things, an estimated surplus is not only justifiable in balancing the budget, but also desirable, the amount of it depending, of course, on the size of the budget and on the past financial experience of the government. Under normal conditions, there is no justification for an unbalanced budget in which estimated expenditures exceed anticipated income; or for a series of such budgets, even when conditions are considered to be abnormal. The latter practice indicates inability on the part of the government to adapt itself readily to changed situations in the financial and economic spheres.

Strange as it may seem, budgeteers apply widely different tests to a balanced budget. To some a balanced budget is a plan that has been put in equilibrium at the beginning of the financial period to which it relates, and so authorized. If only the budget is balanced on paper at the time of its adoption, they are little concerned with what happens to it during the financial period. This attitude of merely "getting by" often promotes what is known as a fictitiously balanced budget, which is frequently the equivalent of a politically balanced budget. Such method has been called, quite aptly, "hocus-pocus budgeting." To other budgeteers, a balanced budget is one that is in balance at the time of its adoption and also at the end of the financial period to which it relates. This is, of course, the real test of the effectiveness of budgetary estimating, and likewise

of the adequacy of budgetary control. We shall take up the latter in Chapter VIII.

There are several ways of attaining budgetary equilibrium. We shall first note those usually followed under normal conditions. The formula for balancing the budget most widely approved by American practice provides that current income, namely, revenues, should be ample to meet current expenditures and fixed charges, including debt service; that borrowings should not be used for meeting current expenditures, but only for capital expenditures, and, when unavoidable, for major emergencies; and that indebtedness should not be incurred beyond the ability of the government to meet interest and retirement charges out of current income. This formula has, of course, not been uniformly applied by the different governmental units of the United States. Some state and local governments have borrowed, perhaps not directly, but in effect, for current expenditures, even during prosperous times. Others have adhered to the policy of meeting both current and capital expenditures out of current income, thus practically eliminating borrowing. This latter policy has generally been followed by the national government, which has also retired its outstanding indebtedness at more than the required rate when its current income produced large surpluses, as was the case during the period between 1921 and 1930. Incidentally, it may be said that these surpluses were mainly due to poor budgetary estimating, designated as "conservative estimating" by those who sought political justification for a series of bad guesses.

Balancing the budget, not a simple matter even under favorable conditions, becomes a difficult problem in times of economic adversity. During the existing world-wide depression, two general methods of approach to this problem have been suggested. While these methods have certain weaknesses, they offer something constructive in each instance. They do not depend upon simply "muddling through," as the English would say, or "hanging on" to see the outcome, to use the American vernacular.

One method, proposed by S. E. Leland of the University of Chicago, involves the balancing of the budget, not as an individual plan, but as a series of plans extending over an economic cycle. His argument for this scheme runs thus: "The only planning many governments undertake—and this practice is by no means universal—is the preparation of the annual program represented by the budget. The task of the finance officer is to bring the revenue and expenditure columns in that document into equilibrium. It is erroneously conceived that this is the only proper policy year in and year out, regardless of economic conditions. Even if a stable price level were maintained this policy would not always be justified. A wise fiscal policy requires not only an annual budget but also a longer term financial program. The latter should take account of the fluctuations of the business cycle and should control the policy of the annual budget. The long-term budget should be balanced with reference to economic periods and the equilibrium between surplus and deficits should be struck over a period of years rather than annually."¹ Later, Leland and certain associates amplified this proposal and recommended it to the national government. In a pamphlet called "Balancing the Budget," published in January, 1933, they made this rather unorthodox statement: "It is by no means axiomatic that the federal government should annually collect revenues sufficient to cover even its ordinary expenses. This, of course, should be an aim of the Treasury; but if this policy involves too great hardship from the imposition of burdensome taxes, the government is justified in borrowing for a few years in order to meet deficits from current operations." Then they went on to say: "A historical survey of Treasury finances shows that deficits are a recurring phenomenon. These deficits are defensible if in accordance with deliberate and well-designed long-range planning. The planless character of past fiscal policy has made governmental burdens during this depression unduly severe."

¹ "How Governments Can Best Meet the Financial Crisis," a paper read before the Convention of the International City Managers' Association, Cincinnati, Ohio, October 24, 1932.

Although one may not entirely agree with these findings, the proposal, as such, merits more than passing consideration. It is briefly stated thus: "The balancing of budgets should be regarded as a series of long-term operations in which deficits will be incurred and debts increased during years of economic adversity while Treasury surpluses and the rapid retirement of the public debt will be planned for during years of prosperity. When a series of annual budgets is thus put together, the result is the balancing of the long-term budget with reference to economic cycle periods. The equilibrium between revenues and expenditures is thus intentionally struck over a period of years rather than annually."

The long-term financial planning embodied in the foregoing proposal is undoubtedly highly desirable in all governments, as already pointed out in Chapter II, and serves as a much-needed guide to annual budgeting. The recent experience of several municipalities in the United States, and in some other countries, indicates that it is most helpful to governmental authorities in developing future policies. The Five-Year Plan of Soviet Russia is, of course, the application of this idea on a nation-wide scale. But where long-term planning has been attempted, it has been for a definite future period and not for anything quite so indefinite as an economic cycle. Furthermore, such planning, by reason of the general character of the financial and economic data now available, is clearly not very accurate beyond five years. And even within this period, it cannot be regarded as a substitute for annual budgeting. To consider it so would, in a large measure, relieve governmental authorities of the responsibility for making both ends meet each year, and would reduce to a mere shadow the legislature's historic right under representative government to vote the budget annually. But of even greater importance to the citizens and taxpayers, especially in America, is the final result that one might expect from the adoption of this proposal for "cyclic," rather than annual, budgeting; and that is the postponement of the financing of many governmental requirements and

projects to some future period which seemed (and, for that matter, would always seem) more roseate than the present. Herein, it appears, lies the real danger of the proposition, since governmental authorities in the United States still rely for their success on political strategy rather than on financial foresight. And this danger is so great, at least in America, that it would seem to transcend the good points of long-term planning on the scale indicated. There is, however, genuine promise in the application of the proposal merely as an adjunct of annual budgeting. Under such application, a definite and comprehensive five-year plan would be prepared, revised, and extended each year, and thus made to serve as the groundwork for the annual budget.

Chamberlain, as Chancellor of the Exchequer, recently rejected a scheme, similar to the above proposal, for balancing the budget of Great Britain. In his budget speech before the House of Commons on April 25, 1933, he outlined this scheme as follows: "That the time has now come when trade recovery is on the point of materializing, and that a reduction of direct taxation would give such a psychological filip to the country that the wheels of industry would start running again at such a rate that in a comparatively short time, say in three years, we might expect to find ourselves in possession of a substantial surplus of revenue. That programme is to be combined with a programme of public expenditure, and the combined programme is to be announced beforehand so that the public may be directed to pay attention only to what is to happen at the end of the period, and to disregard the question of whether at any intermediate stage there is a surplus or a deficit." He called this scheme "a highly optimistic one," and declared that he could see nothing really hopeful in "the idea of a three years' budget." "As . . . everyone knows," he continued, "you cannot possibly, in these times, forecast what is to happen over three years. Even one year may produce quite unexpected results, as the Committee has seen in the review I have given of the year that is past. If I were to pretend that I could lay

out a programme under which what I borrowed this year would be met by a surplus at the end of three years, everyone would very soon perceive that I was only resorting to the rather transparent device of making an unbalanced budget look respectable." After some further arguments, he concluded by saying: "Look round the world today and you see that badly unbalanced budgets are the rule rather than the exception. . . . I find that budget deficits repeated year after year may be accompanied by deepening depression and by a constantly falling price level. . . . Without underrating the hardships of our situation, the long tragedy of the unemployed, the grievous burden of taxation, the arduous and painful struggle of those engaged in trade and industry, at any rate we are free from that fear, which besets so many less fortunately placed, the fear that things are going to get worse. We owe our freedom from that fear largely to the fact that we have balanced our budget."

The other method of approach to a balanced budget in times of economic adversity is the one agreed upon and adopted by the Premiers' Conference of Australia in June, 1931. It was proposed by an advisory committee of economists, led by D. B. Copland and E. O. G. Shann of the University of Melbourne. This committee, in making its recommendations, was faced with an extremely serious condition in the finances of both the Commonwealth and the six state governments. Current deficits, over a period of years, had amounted to more than £40,000,000; the governments were no longer able to raise long-term loans, but were working on bank overdrafts. Governmental requirements, excluding municipal expenditures, had increased until they consumed 40 per cent of the national income; and with municipal expenditures, more than 50 per cent. Parliament was urged to resort to currency inflation as the only way of avoiding public default.

Confronted with this grave situation, the advisory committee decided to make a bold bid for financial reconstruction by recommending the "progressive" reduction of deficits in the federal and state budgets and the balancing of these budgets

over a period of three years. It stated that there were three normal ways of reducing or eliminating budget deficits; namely, increased revenue, reduced expenditure, and borrowing. It examined and recommended all three, but in differing degrees. It held that borrowing "was both justifiable and practicable to bridge the gap which remained after all possible increases in taxation and reductions in expenditure had been made." The recommendations of the committee for reducing expenditures were more fruitful than those for increasing revenues. Its most important expenditure recommendation was the reduction of interest on the internal public debt by conversion. While conversion involved a technical breach of contract, the committee thought that, under the abnormal circumstances, "when the alternatives are inflation and default, or taxation of an equal or probably greater severity, holders of fixed money-claims may find it wiser to accept a variation of their contracts, which is less onerous than taxation and insures them against the greater loss of total default."

The advisory committee's plan, as adopted by the Premiers' Conference and later approved by the federal and state parliaments, involved a 20 per cent reduction in all adjustable governmental expenditures, including salaries, wages, and pensions; a conversion of the internal debts of the governments at a 2½ per cent reduction of interest; the securing of some additional revenue by taxation, both federal and state; a reduction of bank rates of interest on deposits and advances; and certain relief in respect to private mortgages. The Loan Council, already referred to in Chapter II, was brought into the picture to assist the Premiers' Conference and the federal and state authorities in carrying out this plan. The Council's sweeping control over all internal and external loans and temporary bank overdrafts of the federal and state governments enabled the authorities to impose strict limits upon borrowing. Thus the plan became at once a national economy program under governmental direction, the states coöperating with the federal government.

By the end of 1932, when the period designated for the balancing of federal and state budgets was half over, sufficient progress appeared to have been made to assure the accomplishment of the major objectives of the plan. Indeed, the immediate results were remarkable. Governmental expenditures were reduced 18 per cent. The conversion scheme was carried out, and produced a total reduction in interest of £6,500,000 a year. After this conversion Australian securities, which had sold at about 50 per cent of their par value on the London market, rose to par or above. The banks reduced the interest on overdrafts by 14 per cent, and on fixed deposits by 25 per cent. At the close of 1932, the federal government actually showed a small revenue surplus, and the Ministry was able to announce some reductions in taxation for 1933. But the financial position of the state governments was not so satisfactory, although their current deficits had been greatly lowered. The final success of the plan, however, is complicated by the fact, as Copland puts it, that "Government finance cannot be considered apart from the general economic situation, and if the drift towards reduced output in industry and increasing unemployment continues, the task of balancing budgets will become even more serious." For this reason, he says, the Australian governments "are vitally interested in the restoration of economic equilibrium and the prevention of further losses of national income."

In 1931, the British Cabinet employed a method similar to that of Australia in bringing its budget back into balance. Scarcely five months after the opening of the financial year on April 1, the Cabinet perceived that its budget, then voted, would show a deficit of probably £74,000,000 by the end of that year. It determined to meet this situation without delay, and not to take any chances on piling up current deficits, as had been the case in Australia. Therefore, the Chancellor of the Exchequer, Snowden, drafted a second or emergency budget, and presented it to the House of Commons on September 10, 1931. Such a budget was almost without parallel in British finance,

at least in times of peace. Snowden said in his budget speech that, under the circumstances, there were "two ways or a combination of two ways of balancing the budget, one by economies and one by increased taxation." He employed both in combination, recommending large reductions in expenditures and heavy increases in taxation. Among the recommended reductions, he proposed the conversion of the 5 per cent war loan to a lower rate of interest. His recommendations were adopted by the House of Commons and carried into effect, with the result that the budget was practically balanced by the end of the financial year. This was an heroic effort in national budgeting, and Snowden's scheme was popularly acclaimed "as a model of severe, but sound and salutary, finance."

When the United States government was confronted with a situation similar to that of Great Britain, it did not take immediate action but dilly-dallied along for almost three years, letting the current deficits accumulate in the meantime until they reached in the aggregate approximately \$5,000,000,000. Although a deficit first occurred in the budget for the fiscal year ended June 30, 1931, amounting to over \$900,000,000, it was not until after March 4, 1933, when the Roosevelt administration came into office, that Congress took definite steps to meet this serious financial condition. At President Roosevelt's request, Congress granted the executive authority to reduce federal salaries and war pensions, and to eliminate overlapping functions and useless activities, in order to bring the budget again into balance. It was estimated that these measures when effected would reduce the current expenditures of the government by a billion dollars. But scarcely had the administration embarked upon this program for reducing expenditure, when President Roosevelt asked Congress to grant emergency and relief appropriations from treasury funds, amounting in the aggregate to four billion dollars, and to extend the borrowing power of the Reconstruction Finance Corporation (RFC) to approximately an equivalent amount, both of which Congress did. Thus, the government was in the position of attempting

large economies in current expenditures, looking toward budgetary equilibrium, while providing enormous outlays from borrowed funds for emergency and relief works. The immediate effect of this dual program of economizing, on the one hand, and of spending lavishly, on the other, was to cause the administration on July 1, 1933, to divide the budget into two parts. The first part contained the current, or operating, expenditures, including interest on the public debt, balanced by the current income, or revenues, of the government; while the second part comprised the emergency and relief expenditures, met through public borrowings. The Roosevelt administration, therefore, set for itself the task of balancing the first, or "ordinary," part of the budget entirely from revenues. It proposed, for the time being at least, to employ public credit to meet the second, or "extraordinary," part of the budget, in the belief that early economic recovery would augment the national income, thus increasing receipts from taxes and other revenues, so that the government might begin debt retirement before the amount of the debt became a menace to public credit or a cause for unrestrained inflation.

Comprehensiveness—An Essential of the Budget

Comprehensiveness, or as French writers express it, the rule of universality (*règle de l'universalité*), signifies that the budget includes *all* income and *all* outgo of the government. It indicates, in other words, that the budget embraces all the financial requirements of the government, that no receipts or expenditures are omitted. It goes even further than this; it means that these requirements are presented in their proper relation to each other, so as to produce budgetary equilibrium. This is referred to by French writers as the rule of unity (*règle de l'unité*), which connotes the bringing together of the government's financial requirements, not in a number of separate and unrelated totals, but in two grand totals, one of income and the other of outgo. By such arrangement, the budget is balanced satisfactorily and a complete picture of governmental needs

is presented to the legislature and the public in one statement or account.

French authorities, notably Stourm, Jèze, and Allix, stress the rules of universality and unity, which date back to the time of de Villèle, as being of basic importance in budgeting. While great emphasis has since been placed on these rules in political debates, both in and out of Parliament, they have not always been adhered to in practice. Today, according to Allix, they are more honored in the breach than the observance. Certain funds are not included in the general budget, and some governmental agencies, particularly public enterprises, have been given budgetary autonomy, that is, divorced more or less from the general budget of the government.

One of the fundamental rules of English budgetary practice relates to inclusiveness and unity. It is the rule, as Young expresses it, "that all money got must be paid into a single fund, the consolidated fund, and that all money spent must be paid out of that fund." This rule he regards as "the sheet anchor of simplicity and efficiency in the nation's accounts." It aids Parliament, he continues, in "maintaining its control over the whole of revenue and expenditure, because in the consolidated fund it has the public money in full view and under its thumb." As far back as 1848 the House of Commons resolved "that this House cannot be the effectual guardian of the Revenues of the State unless the whole amount of the taxes and of various other sources of income received for the Public Account be either paid in or accounted for to the Exchequer." In recent years this rule has been observed with some difficulty, and in practice there are now many minor exceptions to it.

In the United States, the idea of budgetary comprehensiveness has not been greatly stressed, and it has not yet been widely realized, even in a practical manner. Only the national government and a few state and municipal governments may be said to produce anything like complete budgets,—budgets which comprehend all their financial requirements. In many state and local governments, the stock method of producing

a balanced budget is to omit the requirements for certain governmental agencies and funds. This method is sometimes pursued in direct violation of legal provisions prescribing that all proposals for financing the government must be shown in the budget. As to what agencies or funds are included in, or excluded from, the budget, no uniform rule is applied. Agencies supported by mill levies, dedicated funds, or permanent appropriations are sometimes left out, sometimes put in. This is true, likewise, of public agencies of a self-supporting nature, such as business and industrial enterprises. The requirements for public works are frequently excluded from the general budgets of state and municipal governments on the pretext that the necessary planning for such works cannot be done at the time the budgetary estimates are prepared. In many of these governments the budget is little more than a program for current expenditures out of the general fund, the receipts and expenditures of special funds being altogether omitted. Among the latter funds are the moneys secured from the sale of bonds. It is erroneously assumed in some quarters that such moneys should be reflected in the general budget only upon payment of the principal and interest on outstanding bonds, since this is thought to be the only phase of the expenditure which directly concerns the taxpayers.

Annuality—Annual Voting of the Budget

Not only should the budget be a balanced plan, comprehending all the financial requirements of the government, but it should be voted at regular intervals. The year, being a natural cycle, is generally regarded as the proper unit of time for the voting of the budget. It is not too long for accurate estimating, and it is probably the shortest period that will not consume too much of the legislative session in the consideration of the budget. In the actual voting of the budget, however, there are some exceptions to this so-called rule of annuality. This is notably the case in the United States, where more than three-fourths of the state legislatures vote the budget biennially, and

one state legislature—that of Alabama,—votes it quadrennially. Such practice has, of course, resulted because of the fact that these legislatures do not meet in regular sessions at more frequent intervals. But although voted biennially or even quadrennially, the state budgets are usually operated as if they were on an annual basis.

While practically all governments accept the year as the logical time-unit for the budget, and consequently for their financial administration, there is no general agreement as to the date of its commencement. Various dates have been chosen for the opening of the "fiscal year," as it is called in the United States, or the "financial year," to use the English phrase. These are, for example, April 1 in England, July 1 in the United States, and January 1 in Belgium, and until recently in France. The financial year in England coincided with the calendar year until 1854, which necessitated presenting the budget to Parliament either long before, or some time after, the opening of the period. The former procedure, according to Bastable, made accurate estimating almost impossible, while the latter compelled the government either to make expenditures without parliamentary sanction, or to resort to excessive use of "votes on account." In order to meet a similar difficulty in the United States, the fiscal year was changed in 1842 from the calendar year to the period beginning July 1, thus shifting it six months (at that time, seven months) away from the opening of the regular congressional session. Many of the state governments have recently followed the lead of the national government, so that about two-thirds of them now use a fiscal period dating from July 1. But there is still a great lack of uniformity in the remaining states and in the local governments throughout the country. When the financial year of France began on January 1 (and Parliament met about the same time), it was criticized by Stourm as making necessary the preparation of the budgetary estimates some fourteen or fifteen months prior to that time, in order that the budget might be placed before the previous parliamentary session. This procedure, as Stourm

pointed out, detracted greatly from the accuracy of the estimates. In 1929, the opening of the financial year was changed to April 1; but due principally to the frequent overthrow of the Ministry and to the dilatory practices of Parliament, this change does not seem to have remedied the situation of which Stourm complained.¹ The experience of these governments indicates that the fiscal year should be established with the aim of bringing the preparation and the execution of the budget as close as possible to each other, but always with due regard for the legislative and administrative habits of the country concerned. The legislature should have ample time, after the budget is submitted, to consider it and to vote the necessary measures before the opening of the fiscal year,—assuming, of course, that the task is handled expeditiously.

The significance which governments attach to the annuality of the budget varies from country to country. The French government has endeavored to place all its revenues and expenditures on an annual basis, requiring them to be voted each year by Parliament. While there are a growing number of exceptions to this rule (*règle de l'annualité*), it is still adhered to in the main. The English government, on the other hand, places all its revenues and a considerable part of its expenditures on a permanent basis. Its expenditures for the "supply services" are voted annually by Parliament, and certain taxes are changed whenever such action is deemed necessary to balance the budget. The British practice, in this respect, is imitated by the United States, where the revenue laws, and likewise a part of the appropriations, of the national government are voted on a permanent basis. Many of the state governments follow a similar practice with reference to revenues, and a few of them authorize permanent, or continuing, appropriations.

In order to preserve the annuality of the budget, it is not necessary that all revenues and expenditures of the government should be voted each year. Stourm has criticized the French

¹ So in 1932 the French financial year was again changed to January 1, mainly to gain the advantage of a nine-month period in attempting to balance the budget.

method of attempting to examine and vote annually all budgetary requirements, even when the propriety of most of the taxes and a portion of the expenditures has already been satisfactorily demonstrated. He thinks this procedure is a needless waste of legislative time. He therefore favors the British method, which, as he points out, puts all revenues and expenditures, including those permanently voted, in the budget, but directs the attention of Parliament only to those which require annual voting. At the same time, under this method, the permanent appropriations do not escape the scrutiny of the executive and the legislature, as they often do in America. The permanent appropriations of the national government of the United States have been criticized, and justly so, because they are concealed in the permanent statutes, fostering, in some cases, half-way forgotten activities and projects which run for years without careful review either by the executive or by Congress. The same criticisms are applicable to the permanent, or continuing, appropriations which are found in certain state governments. Some of these states, it may be added, have recently discontinued such appropriations, and placed their expenditure authorizations entirely on an annual basis.

But annuality of the budget has another and deeper meaning. According to Young, it requires that "expenditure for the year must be met out of revenue for the year, and revenue must not be left to accumulate from year to year"; in other words, that "revenue and expenditure should balance year by year." This requirement he calls "the golden rule of economy." "It is," he says, "an absolute essential of solvency. Bankruptcy is the port toward which a state steers that allows its debts to accumulate. To obscure the fact that they are being allowed to accumulate by raising loans to pay them off temporarily can only prolong the journey. The converse form of accumulation, the accumulation of a balance of revenue from year to year, is equally uneconomic. It needlessly deprives the nation of wealth for which profitable uses could be found, and keeps it lying idle and sterile."

THE FORM AND CONTENTS OF THE BUDGET

The actual form of the budget varies widely among the governments of the world, as a few examples will show. In England, the budget, as presented to Parliament, consists of several documents. They are (1) the detailed expenditure estimates of the several departments and agencies, which are sent to Parliament before the opening of the financial year to which the budget relates; (2) the "financial statement," or budget summary, placed before Parliament by the Chancellor of the Exchequer at the time of "opening" the budget, which is usually toward the end of the first month of the financial year; (3) the "budget speech" which the Chancellor makes before the House of Commons, when presenting the budget and incidentally the financial statement; and (4) the budget bills—appropriation act and revenue or "money" measures,—which are drafted several weeks later for action by the House of Commons. The French budget, when presented to Parliament, is in the form of a massive document, consisting of several quarto volumes. The first volume contains the budget message (*exposé des motifs*) by the Minister of Finance and the Minister of the Budget, the text of the budget bill (*le projet de loi de finances*), and summary and explanatory tables. The remaining volumes support the first volume, presenting the detailed expenditure estimates of the various departments and agencies of the government. The budget for 1933, for example, consisted of a first volume of over 500 pages, supported by twenty-two other volumes containing in the aggregate about 6,000 pages. As compared with the French document, the budget of the United States government is much less voluminous, consisting usually of about 1,000 quarto pages. It is sent to Congress as a single volume, containing first, a budget message by the President, second, summary tables and comparative data, and third, the detailed expenditure estimates of the departments and establishments of the government, to which is appended in each case a draft form of the recommended appropriations. Usually the

budget message and summary tables are printed separately for wider distribution than is given to the complete document.

American budgetary practice seems definitely to have adopted the single budget document; and several of the budgetary laws now make provision for such a document. Furthermore, the present trend is in the direction of setting up the budget document under three general parts, as follows: Part I, showing the financial plan in a balanced statement, explained by a budget message and supported by summary schedules, tables, and charts; Part II, presenting the detailed estimates, both of expenditures and revenues, with comparative figures, expenditure cost data, where available and pertinent, and general statements of the financial condition and operations of the government; and Part III, containing the appropriation, revenue, and borrowing measures—the budget bills—which are legally required to carry the budget into operation. For the use of the members of the legislature and for the information of the press and the public, the three parts of the budget are often published separately. In this way the cost of distribution is greatly reduced, since Part I of the budget is usually sufficient for purposes of general circulation.

The budget message, according to practice in America, France, and a few other countries, is the means of vitalizing the financial plan, of putting sinews and flesh on what would otherwise be the dry bones of budgetary figures and facts. This message is addressed to the legislature, and is analogous, in some ways, to the budget speech of the British Chancellor of the Exchequer. When properly prepared, it enables the executive to present the budgetary proposals in terms understandable to the legislators and the citizens. In general, the budget message sets forth the financial condition of the government, actual or estimated, both at the beginning and at the end of the fiscal period covered by the budget; it outlines the major items in the proposed financial policy, especially those relating to taxation and other sources of revenue; it discusses the expenditures for operation and maintenance, if they are important or

unusual, and always those for capital outlays; and finally, it summarizes the condition of the government's indebtedness.

The balanced statement, or general budget summary, is necessary in order to present a clear and comprehensive picture of the financial plan. It is the key to the financial condition of the government, real or prospective, both at the beginning and at the end of the period covered by the budget. No budget document is complete without such a statement. If possible, this statement should be brief enough to be presented on a single page or on facing pages; yet it should comprehend all the financial requirements of the government, and most important of all, it should exhibit a balanced relationship between the anticipated income and the proposed outgo. Finally, it should be expressed in such terms as to be easily comprehended by legislators and citizens who have no special knowledge of accounting terminology.

The English budget presents a balanced statement which is compact and yet quite comprehensive. It usually appears on the last page of the "financial statement," referred to above. It is now divided into two parts, the "ordinary revenue and expenditure" and the "self-balancing revenue and expenditure." The first part exhibits the general budget of the government, while the second part shows the financial requirements of the major public undertakings, notably the Post Office. The estimated income of the general budget is shown in the left-hand column and the estimated expenditures in the opposite column of the first part. These columns are balanced. The income (usually only revenues) is segregated according to main sources; the expenditures are divided between the "consolidated fund services" (permanent appropriations) and the "supply services" (annual appropriations). The sinking fund provisions are shown separately under the expenditure column. The second part is a recent departure inaugurated in 1928 by Winston Churchill, then Chancellor of the Exchequer. We shall come to it again in the course of this chapter.

The budgets of several European governments present note-

worthy balanced statements more or less in the form of the English statement. The budget of the second German Reich always displayed a balanced statement at the head of its summary and tabular matter. The Danish budget opens with such a statement, and so do the budgets of Sweden and Norway. Hungary presents a balanced statement in its budget, divided as between general administrative services and public utilities.

In the United States, the budget of the national government has been without a satisfactory balanced statement until quite recently. Prior to the budget for 1931-32, only the general fund transactions appeared in the summary statement of the budget. Aside from omitting the special funds of the government, this statement was improperly arranged and was too lengthy to give a good picture of the financial plan. Changes were then made in the statement, as it appeared in the budgets for 1931-32 and 1932-33, to show both general and special funds, but it still remained long and cumbersome. In the budget for 1933-34 the statement was reduced to a single page, although it still lacked clarity of arrangement. The latter feature, however, was greatly improved in the budget for 1934-35, submitted to Congress by President Roosevelt in January, 1934. For the first time the statement became a real balanced summary of the budget, although there is still room for improvement so far as arrangement is concerned. As the statement now stands, it presents the total income and total outgo in the several funds for the fiscal year covered by the budget, showing the estimated condition of the treasury at the beginning and end of this year. For comparative purposes, it also exhibits in adjacent vertical columns the estimated requirements for the current fiscal year and the actual figures for the preceding fiscal year. References are made to the supporting schedules, which number about a score.

Among the state governments of the United States, there are now several which have budgets that present balanced statements worthy of mention in this connection. These are Cali-

fornia, Massachusetts, Maryland, North Carolina, and more recently New York, Ohio, and Pennsylvania. The statements contained in the budgets of these states are not only concise, as a rule, but they also provide in each case an accurate picture of the financial plan.

As indicated by the foregoing discussion, the form of the balanced statement, or general budget summary, varies according to the diversity of functions and the complexity of operations of the government. And not only that, but since this statement is designed to portray, as faithfully as possible in one summary table, the financial plan of the government, it is bound to be affected by the completeness or incompleteness of the estimates presented in the budget and by the arrangement or lack of arrangement of these estimates. This brings us to a discussion of what are known as gross and net budgets, and subsequently to an explanation of current and capital budgets, ordinary and extraordinary budgets, and finally, annexed and independent budgets.

The Gross versus the Net Budget

The gross, as against the net, budget raises the question of whether the total amounts, that is, the total receipts and total expenditures, involved in the operation of certain governmental services, or merely the balances resulting from such operation, should be presented in the general budget. Gladstone was of the opinion that the general budget should show the total financial requirements of all governmental services in gross, rather than net, figures. "To render parliamentary control effectual," he said, "it is necessary that the House of Commons should have the money transactions of the year presented to it in one mass and in one account." While he realized that the taxpayers were interested only in the net amount of governmental cost which fell directly on taxation, he maintained that they ought to be able to view the complete requirements in the budget, even though the total might be somewhat exaggerated by including the gross figures of such services as the Post Office. Later,

Bastable contended that the gross budget was preferable, inasmuch as it brought all financial details under direct review and prevented departmental irregularities in handling funds. Even the industrial departments, he held, were in need of such supervision by the Treasury. But in 1928 Winston Churchill, as Chancellor of the Exchequer, proposed a net budget by removing from the general budget the operating receipts and expenditures of the Post Office and of the Road Fund. Since that time only the net result of operation, either surplus or deficit (usually the former), has been shown in the general budget. Churchill explained this step in his budget speech of April 14, 1928, as follows: "According to the doctrines of Sir Robert Peel and Mr. Gladstone, the presentation of gross estimates was to be encouraged, and respectable reasons can be found for it. But as the consequent meaningless inflation of the total figure has proved a stumbling block to a numerous tribe of political quadrupeds, I have thought it desirable on this occasion and for the future to make a change. . . . It is a matter of common agreement between the financial authorities of all parties, I think, that the growth of the self-balancing expenditure of the Post Office and the Road Fund grants ought not to appear in our accounts on precisely the same footing as an increase in ordinary burdensome expenditure. . . . The changes which I propose are of the simplest character. In the statement of ordinary revenue and expenditure I leave only the surplus of the Post Office and the excess of the Motor Vehicle Duties over the Road Fund grants. The Post Office expenditure and the Road Fund grants are shown quite separately as self-balancing items. The amount of the Sinking Fund provision will also be kept outside the total expenditure and shown in its proper place, namely beside the prospective surplus of the year." Allix, assuming a critical attitude toward Churchill's plan, says (p. 58): "In reality, the reform effected in 1928 is nothing more than a scheme for masking the formidable growth of English budgets." Incidentally, if this practice is financial juggling, as Allix seems to think, then, according to

his own testimony at a later point in his book, France also is engaged in similar budgetary manipulations.

Among the governments of continental Europe, recent practice generally favors the use of net rather than gross budgets. The public undertakings—and there are many in these governments—are often budgeted so that their financial requirements do not appear in gross amounts in the general budget, but only the net surplus or deficit in each instance is shown. Of course there are cases, as we shall point out later in this chapter, where such undertakings are budgeted on an independent basis, being largely divorced from the general budget. But these do not concern us at this point.

There is as yet no established practice in the United States with respect to gross or net budgets. The general trend, if there is one at the present moment, would seem to be in the direction of budgeting gross amounts. This is perhaps due more than anything else to a country-wide effort to produce comprehensive budgets. Heretofore certain undertakings, services, and funds, as previously noted in this chapter, have been omitted from the budgets of the national, state, and local governments. The result of such a course has not been net, but incomplete, budgeting. The budgets of the national government since 1921 have been neither gross nor net, at least so far as the financial requirements of the public undertakings are concerned. The state governments have sometimes included the requirements of such undertakings in the general budget in gross amounts, but more often they have entirely omitted them. In many instances one would not know from an examination of the general budget that these undertakings even existed, except when it became necessary, due to poor or incompetent management, to replenish wasted capital assets or to meet operating deficits. Such practice is, of course, not net budgeting in any sense of that term; furthermore, it undoubtedly encourages loose financial administration on the part of the state authorities. The municipal governments usually treat the financial requirements of their undertakings on a similar basis, includ-

ing them in the general budget in gross figures, or altogether omitting them. Rarely is an attempt made to show the net results from the operation of municipal undertakings in the general budget.

The Current and the Capital Budget

Several governments have undertaken to distinguish between "current" and "capital" expenditures, and the means of financing each group, by dividing the general budget into two parts. These parts are sometimes referred to in the United States as the "operating budget" and the "improvement budget," respectively; and they are often considered, quite improperly so, at different times and without relation to each other. Although balanced as separate parts of the budget, they should always be presented together in such form as to give a complete picture of the governmental requirements. The difference between the current and the capital budget, or more accurately the two parts of the general budget, is simply this: the current budget is intended to show what it costs to operate the government as a going concern, while the capital budget presents the amounts which are to be put into properties, investments, and other lasting assets of the government. The difference also signifies some distinction in the means of financing the two budgets, or parts, as we shall see presently. The current budget generally exhibits, on the expenditure side, the running expenses of the government, including current obligations, minor properties, and debt redemption; and on the income side, the revenues and the surpluses, if any, which are anticipated to finance the proposed outgo. The capital budget presents, on the expenditure side, the estimated cost of major properties to be acquired or constructed, and the investments to be made in public undertakings and similar enterprises, while on the income side it enumerates the revenues, assessments, borrowings, receipts from the sales of capital assets, and surpluses in funds available for purposes of financing. Borrowings, it will be seen, may be used in financing the capital budget, but sound fiscal policy

rules them out with respect to the current budget, except perhaps in cases of great emergency.

As several American municipalities have already demonstrated, long-term financial planning may be effectively employed in connection with the capital budget. Such planning enables governmental authorities to anticipate capital improvements over a period of time, to arrange them more or less in the order of their urgency, and to distribute their total cost in the manner least likely to overburden the revenue system of the government. When once satisfactorily worked out, a long-term program obviates avoidable borrowings for capital improvements and stabilizes, in a large measure, the financial demands upon the government for such improvements. Not only capital, but also current, expenditures may be brought into the program by anticipating the running expenses of the government and its debt service in aggregate amounts. A program of this character can be prepared for a period of five years without great difficulty and with a fair degree of accuracy when economic conditions are at all normal. The experience of Soviet Russia, not to mention local governments in other parts of the world, has fully demonstrated that this is feasible.

In Great Britain the national government, says Hills, "has no capital account in the sense that a large business has one, though capital and income are separated for certain purposes. It may build a railway in Nyasaland out of income, it may sell war stores bought out of borrowed money and treat the proceeds as revenue. It has a national debt, and a big one, but this is not charged against its assets, which would not cover a fraction, but on taxes, actual or potential." The national government of the United States follows very much the same practice; it does not segregate its current and capital expenditures and the means of financing them. However, several American state and municipal governments are now doing so. For many years Canada has had a so-called capital budget, but it has operated until recently without the necessary safeguards to prevent certain abuses. Denmark, Norway, and Sweden follow

the practice of segregating their budgets into current and capital expenditures. The League of Nations presents its budget under the headings of "ordinary" and "capital" expenditures, which amount to practically the same thing.

The Ordinary and the Extraordinary Budget

By splitting the general budget into two parts, known as the "ordinary budget" and the "extraordinary budget," it is often possible to balance the ordinary budget by transferring to the extraordinary budget certain expenditures which should be met from current revenues. The latter budget is then balanced, if at all, by the use of public credit. In this way a fictitiously balanced budget may be easily produced by simply shifting expenditures from the ordinary to the extraordinary category. The extraordinary budget then becomes, as a Belgian legislator once said, "the juggler's cup, by means of which the Minister of Finance disposes of the deficit." In actual practice the tendency is for the two budgets to become separated when the legislature is scrutinizing them. Legislative attention is then directed less and less to the extraordinary budget, which remains chronically out of balance. Upon observing this situation in several European governments, Stourm was prompted to declare that "extraordinary budgets are everywhere regarded with suspicion," and that "they have been universally condemned" by their results. Hills thinks that the English government is fortunate in this respect, "for it does not follow the evil practice of some countries and separate its extraordinary or so-called non-recurrent expenditure from the ordinary; and at normal times it balances its budget without borrowing."

Allix cites the unhappy experiences which France has had with extraordinary budgets, dating back to the second quarter of the nineteenth century. Every few years parliamentary opposition to these budgets reached a point where efforts were made, as Allix puts it, to "extinguish" them, but they always arose Phoenix-like from their ashes. Finally, in 1922 they were actually abolished, according to Allix; but he hastens to add,

"at least officially." Certain accounts are still maintained, however, which resemble those of extraordinary budgets, and separate budgets of one kind or another continue to survive. These tend to obscure budgetary equilibrium and to disrupt the unity of the financial plan.

The extraordinary budget has been regularly employed in Belgium for many years, and is still continued although frequently criticized. Stourm observes that "the Belgian extraordinary budget has all the objectionable features of that institution, and it would be dangerous in a country less wisely administered than Belgium." Germany, notably since the World War, has resorted to the use of the extraordinary budget, principally in meeting its war indemnities and reparations payments. Italy, long a devotee of the extraordinary budget, modified its practice in 1923 by a decree requiring that both ordinary and extraordinary expenditures must thereafter be shown in the general budget under separate headings.

On July 1, 1933, the United States government, under the aegis of the New Deal, definitely embarked on a scheme for a so-called "double budget," which is virtually an ordinary and an extraordinary budget. This scheme emerged from the attempt of the Roosevelt administration to balance the general budget under the severe curtailment of revenues caused by the depression. It assigns all expenditures of the national government resulting from emergency legislation, such as those for public works projects, capital stock of governmental corporations, and contributions to subordinate units of government, to an extraordinary, or so-called emergency, budget, while the operating expenditures of the government remain in an ordinary budget. In this way it is anticipated that the ordinary budget will be balanced by the receipts from current revenues. At the same time the extraordinary budget, carrying the expenditures of the recovery program, will be financed by moneys secured from bond issues. Whether or not the two parts of the general budget will tend eventually to become two distinct budgets, more or less unrelated to each other, only time will tell. Inher-

ent in this scheme, however, are all the weaknesses to be found in the European practices. In what form and to what extent they will make their appearance in the United States remains to be seen.

Annexed and Independent Budgets

The term "annexed budgets" comes from the French, where the use of *budgets annexes* constitutes a long-established practice. In America such budgets are often spoken of as subsidiary budgets, and sometimes, improperly, as supplementary budgets. This terminology, in any event, indicates that they are subjoined to the general budget, usually on the net basis, that is, through carrying into the general budget the net surplus or deficit of each annexed budget. By this method the gross figures, which unduly swell both sides of the general budget, are eliminated without impairing the unity of that budget.

Annexed budgets are generally established for the so-called self-supporting undertakings or services of the government, and, it should be observed, are most appropriately applied in such cases. These budgets, when properly formulated, definitely promote the policy whereby each such undertaking or service may be required to stand on its own bottom. This condition is brought about by segregating the financial requirements of the undertaking or service from the other operating departments and agencies of the government, but without completely detaching them from the general budget and from the control which the executive or the legislature exercises by virtue of this budget.

In France, where annexed budgets have been employed more or less continuously since 1833, opinions differ as to the place and efficacy of such budgets in the financial system. Stourm, writing in 1912 or earlier, weighed the evidence for and against annexed budgets, and came to the conclusion that they tended to destroy the unity of the general budget and to render financial control difficult. He even prophesied that they would be abolished eventually in behalf of complete budgetary unity.

Shortly after the World War, Jèze again examined French experience with annexed budgets and decided that the practice was workable and desirable, if consistently followed, and that it did not disrupt general budgetary unity. He found these budgets applied to such governmental undertakings as the Mint, the Printing Office, the PTT (*Postes, Télégraphes et Téléphones*), and the National Savings Bank, but he noted other undertakings or services, ordinarily included in the general budget, which were equally self-contained in their fiscal character. In 1931, after examining the pros and cons of annexed budgets, Allix asserted that these budgets had become practically outmoded in the case of public enterprises operated on a self-supporting basis. He then pointed to the recent provisions establishing an independent budget for the French railway system, which he inferred was a move in the right direction. In view of this development he suggested that independent budgets (*budgets industriels*) should be substituted for the annexed budgets of other important self-supporting enterprises, notably the PTT, the Mint, and the Gunpowder Monopoly. While this suggestion of Allix may be carried out eventually, it is not likely that the annexed budgets will all be abolished, since they now constitute a middle ground between the general budget, expressed in gross amounts, and budgetary autonomy, secured through independent budgets. Furthermore, it is not probable that the French Parliament will wish to relinquish its power over financial planning to the extent necessary for the establishment of several independent budgets.

A number of European governments, aside from that of France, now follow the practice of setting up the financial requirements of some or all of their public undertakings in annexed budgets, or what practically amount to such budgets. Indeed, this practice has been greatly extended since the World War. But in the United States annexed budgets have as yet remained practically untried. They have been strongly advocated in connection with the national budget as a desirable step in setting forth the financial requirements of certain public

undertakings which, it was deemed, should be exhibited on a self-supporting basis. Willoughby contends that through the use of such budgets it would be possible to reconcile the present conflict between an all-comprehending budget and independent consideration of the financial requirements and operations of these undertakings. He also maintains that such budgets would greatly strengthen, instead of weaken, congressional control over national finances. He suggests that annexed budgets should be applied to undertakings such as the Post Office, the Panama Canal and Railway, the Alaskan Railway, and the Government Printing Office. To this list may be added certain of the "corporations," notably the Tennessee Valley Authority (TVA), recently established under the Roosevelt recovery program. There are also numerous public undertakings among the state and municipal governments which may be treated in the same manner.

Independent budgets are designed to afford a certain amount of budgetary autonomy to public undertakings of a commercial or industrial character, which are capable of supporting themselves from their earnings. Such budgets, however, are not intended to establish complete separation of the financial operations of the undertakings from those of the government, although they may, and usually do, detract from the comprehensiveness and unity of the general budget. Nor are they intended, under any scheme now in vogue, to make the undertakings, in each instance, an *imperium in imperio* with respect to the government; a relation which exists, for example, between the states and the national government under the federal system. The government continues to have general responsibility for these undertakings and to exercise some supervision over them, no matter how independently they may be budgeted; it cannot do otherwise since the undertakings belong to it.

The proponents of independent budgets for public undertakings assert that this device makes it possible for the government to separate the finances of these undertakings from the

more or less rigid control applied to the routine departments and agencies. They think such separation is highly desirable, since it enables the undertakings to maintain their accounts on a commercial basis, to hold balances at the end of the fiscal year for working capital funds, to set up reserves against the depreciation of equipment and structures, to build up reserves during prosperous years to meet contingencies in periods of depression, to plan for the future on the basis of a longer period than a year, and finally, to avoid somewhat the petty politics, the meddling and bickering, which go with legislative consideration of the general budget. But this is merely one side of the picture; there are competent authorities who believe that independent budgeting has its dangers. R. G. Hawtrey, for example, says that it is extremely difficult to maintain the balance between income and outgo in independent budgets; that if deficiencies are avoided, there are bound to be surpluses, which if not turned over to the general budget are likely to be wastefully spent. Furthermore, he thinks that separation of the finances of undertakings from the direct control of the government "imposes on the public a financial policy which may well not be the most desirable." He regards independent budgeting as being still very largely in the experimental stage.

Thus far, independent budgets have been applied mainly in the financing of publicly owned railways. Such is now the case, for example, in Germany, France, and Switzerland. But the application of these budgets has resulted in varying degrees of financial autonomy for the railways, as we shall note later in this chapter. This outcome has not been entirely fortuitous, but has depended upon the stage of development of the railways, the circumstances of the governments owning them, and even the political temper of the people. The German postal service is also largely autonomous with respect to its finances. Although the financial requirements of the French PTT are set forth in an annexed budget, this organization has recently been granted a measure of fiscal autonomy. The postal systems of other countries, however, are usually included in the general

budgets, their financial requirements appearing either in gross or net amounts. Some other examples of budgetary autonomy among public undertakings are to be found here and there, notably in England and in the United States, but they have resulted more from accident than from design. This is certainly the case in the United States, where the absence of any definite policy with reference to the budgeting of important public undertakings now permits what may be described as "financial anarchy" among many of them.

The Detailed Estimates and Supporting Data

The detailed estimates, which provide the basis for the budget, include the expenditure needs of the various governmental agencies, anticipated revenues and other sources of income, comparative figures from the current and preceding fiscal years, unit cost data where available with respect to current performances, and such accounting statements relating to the financial condition and operations of the government as throw light on the period covered by the budget. These estimates, as they relate to the expenditure requirements, are almost invariably presented by organization units; that is, by the various departments and agencies of the government. They are also frequently summarized by general functions, but rather arbitrarily so in most instances. The detailed expenditure requirements of each organization unit are usually expressed in terms of objects, groups of objects, lines of performance, or functional relationships. The kind and degree of itemization vary widely from country to country, and are often without any systematic grouping, as we shall see from the discussion of classification in the following chapter. The revenue estimates are usually presented by collecting agencies and by sources.

In the British budget, the detailed estimates of expenditures are grouped under four main heads: the army, the navy, the air force, and the civil service and revenue departments. They are divided into items, called "votes," each comprising a par-

ticular service, or sometimes a group of services, administered by a single department or agency. This unit, the "vote," runs through the entire financial procedure of the government. Each vote is passed separately by the House of Commons, and is paid and audited separately, no transfers being permitted except in the case of the fighting services. As set up in the estimates, each vote is exhibited under three divisions, the first specifying the service for which the estimate is presented and the total amount of money required, the second showing the main subheads for which the money is to be spent, and the third supplying the detailed explanations, such as salary and wage schedules. The estimates of the main subheads are shown in relation to the figures of the previous financial year, and the increases or decreases are calculated. Any "appropriation in aid" falling to the service is taken into account in arriving at the total amount of money required by the subheads of each vote.

In the national budget of the United States, the expenditure estimates are presented according to the subunits—bureaus, divisions, or services—of each department or establishment. Under these units, the estimates are generally itemized by the various objects for which expenditures are to be made, the objects being grouped according to a uniform classification. The estimates are usually compared with the expenditure figures for each of the two preceding fiscal years, these figures for the year nearest the budgetary period being partly estimated, since the budget is prepared in the middle of that year. Cost data on functional performances, when available, are sometimes shown in connection with the expenditure estimates. This scheme of presenting the estimates is, in general, the one followed by the state and local governments. But very often the estimates of these governments are presented in double columns, one containing the requests made by the several administrative officers and the other the executive allowances. This is done in order to show the legislative body just how much the executive may have reduced the requests. But it indicates, at

the same time, that the executive allowances are tentative, rather than final, from the standpoint of the administration.

In arguing against this form of presenting the estimates in the national budget, Willoughby contended that it would "weaken the responsibility of the President for the formulation of the budget, tend to raise issues between the President and his administrative subordinates, and unduly increase the work of the committees on appropriations in deciding these issues." His view prevailed in the national practice. A few governors and several city executives have also accepted it, and consequently do not present in their budgets the original departmental requests but only the estimates as revised by them. This is the general practice in other countries.

The expenditure estimates, notably in the United States, are very often based entirely upon previous grants or appropriations. The fact that a department has been voted a certain amount of money for the current or past year is accepted as sufficient evidence that it will require a like amount, or even more, for the coming year. No effort is made to reexamine the departmental policy or organization in view of changed conditions or needs, and least of all to map out a definite program of work for the department during the next year. The emphasis placed on general accounting is somewhat to blame for this attitude; it centers largely on what is bought and the amount paid; the thing acquired, therefore, becomes the all-important fact, rather than the use that is made of it. In addition to such facts and figures, the administrative departments and institutions should present more information on use, performance, and results, if they are to justify their expenditure requirements. They can do this through accurate cost keeping and analysis.

Budgetary legislation in the United States, particularly among the state and local governments, often requires that certain accounting statements, such as a current balance sheet, an operating statement, and a debt statement, must be presented in the budget document. These statements are deemed

necessary in order to define the current financial condition and operations of the government. It is not clearly perceived that the factual essence is largely drawn from such statements for the general summary and supporting schedules, already discussed in this chapter. The need, therefore, for their inclusion in the budget document is greatly minimized. When such statements are inserted, particularly in their formal accounting style, among the opening tables of the budget, they are likely to be more confusing than illuminating. They are most effective, undoubtedly, when placed in the regular financial reports of the government.

The Budget Bills

The budget bills are those measures required to enact the financial plan into law; that is, appropriation bills, revenue or "money" bills, and perhaps borrowing measures. We have already referred to these bills as constituting a third part of the budget document, according to the present trend in the United States. Whether or not these bills are definitely a part of the budget document depends upon the established practice in a given country. In France, the appropriations, or *crédits*, and the tax and revenue provisions are formally embodied in a single bill, *le projet de loi de finances*, which is inserted in the first, or general, volume of the budget. This bill becomes the principal object of discussion in the parliamentary debates on the budget, and its sections, numbering about 165, are examined and voted separately. In England, the appropriation and revenue bills originate in the House of Commons and are voted after the budget has been authorized in committee of the whole. Usually there is only one appropriation bill. But there is always an act, called the "consolidated fund bill," which is passed at the opening of the financial year to provide the "votes on account" necessary for the support of the government until such time as the appropriation bill is enacted. The consolidated fund bill, however, is not regarded as an appropriation act, since it authorizes a lump sum only, and not a

specified amount against each vote. In the United States, the national budget contains sectional drafts of the appropriation bills in connection with the expenditure estimates of each department or service. This, however, is as far as the President has gone in suggesting to Congress the form of the appropriations; he has not as yet drafted either appropriation or revenue bills for inclusion in the budget document. These bills are prepared in the lower house of Congress under the immediate direction of the appropriations and ways and means committees. There are usually from ten to a dozen major appropriation bills, and sometimes several minor ones. The subcommittees of the appropriations committee in each house of Congress are arranged according to the major bills, as we shall see in Chapter VII, thus facilitating the consideration of these measures. While some state legislatures pass numerous appropriation bills, others are practically restricted to the appropriation bill which the governor presents in connection with his budget. Restrictions of this kind have had a salutary effect, since they have practically eliminated the member appropriation bills, which often contained "pork barrel" items. Besides, when appropriation bills are limited to one or two, it is easier to preserve the unity of the budget as presented by the executive.

The practice with respect to the itemization of appropriations varies widely. While the appropriations voted in the French *loi de finances* are in lump-sum amounts, these amounts are supported by the detailed schedules of each department, as they appear in the budget, and are expended and controlled more or less in accordance with these schedules. The English appropriations are made under the heading of votes, as we have already explained. Since there are less than two hundred of these votes in the entire budget, they may be regarded as lump-sum amounts, although they vary from a thousand to several hundred thousand pounds. In the United States, Congress has not followed a uniform scheme in itemizing the appropriations. Some appropriations, running into millions or even

billions of dollars, are made in lump-sum amounts, while others, containing only a few thousand dollars, are highly detailed. Most of the appropriations, however, are in the latter class, and it is this minute segregation that adds scores of pages to the appropriation acts. In fact, the regular appropriation acts for the fiscal year ended June 30, 1933, totaled 345 pages in the federal statutes. As compared with these voluminous appropriation acts, the English "Appropriation Act, 1932" totaled 41 pages, consisting of 3 pages of general matter and 38 pages of supporting schedules, exhibiting the votes. Many American state governments follow the practice of the national government, their legislatures voting the appropriations to the several departments and agencies in great detail. A few state legislatures, however, have recently abandoned this practice in favor of lump-sum amounts.

The itemization of appropriations, as applied in the United States, is not merely an incidental matter; it goes deeper than one might suspect at first blush. It involves the relationship of the legislature to the executive, as we have already pointed out in the conclusion of Chapter III. It is an attempt on the part of the legislature to brush the executive aside and to control the administration directly through detailed specifications in the granting of money. Cleveland has admirably summed up the case against this method of control, as follows: "The best that may be said for the detailed appropriations of the past is that they are part of a system that has operated to prevent administrative action premised on infidelity and ignorance; that legislative control over the administration through detailed appropriations is a device adapted for use of a political institution, in which all the elements essential to administrative efficiency are lacking. Given a responsible government and a real executive, the legislative restrictions which go with detailed appropriations are a first obstacle to efficiency to be removed."

The revenue or finance measures may be regarded either as annual or as permanent acts, depending upon local tradi-

tions. According to French practice, revenue measures are reenacted annually; therefore, elaborate and detailed finance provisions come before Parliament each year in the budget bill (*le projet de loi de finances*). In England, the various taxes are on a permanent basis; but the income and certain luxury taxes are revised whenever it is necessary to balance the budget. The latter taxes, therefore, provide the elasticity in the revenue system necessary to meet any fluctuations in the expenditure demands of the budget. Practically the same general scheme is followed in the United States. For budgetary flexibility the national government depends mainly on income and luxury taxes; the state governments, on corporation, motor vehicle, income, and general property taxes; and the local governments, on the general property tax.

PUBLIC ENTERPRISES AND THE GENERAL BUDGET

We now digress somewhat from the main theme of this chapter to consider in detail the relation of the financial requirements of public enterprises or undertakings to the general budget of the government. It is apparent that this is a problem of growing importance, one that will undoubtedly demand increasing attention in the next few years. Governments, whether socialistically inclined or not, are acquiring and operating more and more enterprises. This is true even in countries where the concept of economic individualism is a common element in the political theories of all major parties.

There are, at the present time, three methods of budgeting the financial requirements of public enterprises. The first method is to put the requirements for each enterprise in the general budget in gross amounts. This indicates that the earnings or receipts of the enterprise may be mingled with the general, or consolidated, fund of the government, that the needs of the enterprise may get no consideration beyond that accorded to the regular departments, that any surplus at the end of the fiscal year may go into the general treasury, that the enterprise may be without a working capital fund, and that

reserves may not be accumulated for the replacement of worn-out equipment or the payment of debt. In sum, the enterprise is usually subjected to the routine financial administration imposed on the regular spending departments. This method enables the government, on the one hand, to exploit or "milk" the enterprise in support of the general, or consolidated fund, while it permits the enterprise, on the other hand, to unload a deficit, due to poor or wasteful management, upon the government to be paid from general revenues. The second method is to place the financial requirements of the enterprise in an annexed or subsidiary budget, carrying to the general budget only the net surplus or deficit resulting from the operation of the enterprise. This permits special consideration to be given to the needs of the enterprise, while retaining it within the general control of the executive and the legislature. At the same time the enterprise may become more or less a financial entity, with an accounting system on the commercial basis, with reserve and working capital funds, and with its own fiscal procedure. The third method is the use of the independent budget, which secures for the enterprise a certain amount of financial autonomy, depending upon legal requirements, governmental practices, and economic circumstances. It usually happens that the enterprise, even under an independent budget, is never entirely divorced from the general budget of the government, as we shall see presently.

It is apparent that the first method of budgeting public enterprises is the least satisfactory of the three. While it conforms to the idea of complete budgetary unity, it disregards the fact that there is a real difference between the financial handling of public enterprises, which are presumed to operate on a self-contained basis, and of ordinary departments of the government, which are merely spending agencies. This difference is taken into account by the second and third methods. But which of these two methods is the more desirable depends largely upon governmental conditions and the type of public enterprise to which it is applied. For the public enterprises

now operating in the United States, it would appear that the second method is preferable to the third, especially in view of the present stage of budgetary development. Since annexed budgets encourage integrated financial planning and put the brakes on the tendency toward financial anarchy now apparent in some quarters, they are likely to prove more satisfactory than independent budgets in financing these enterprises on all levels of American government.

Variety, Organization, and Financing of Public Enterprises

A sketch of the variety, general organization, and methods of financing public enterprises may indicate some of the problems connected with the budgeting of such enterprises. Outside of Soviet Russia, where practically all industries, utilities, and services are governmentally owned and operated, the public enterprises of the various governments of the world may be roughly grouped, for our purposes, as follows: (1) transportation services, (2) communication facilities, (3) public utilities, (4) banking and insurance establishments, (5) industrial enterprises of a competitive nature, and (6) industrial enterprises operating as monopolies. Transportation services embrace railways, waterways, airways, and toll highways, together with their accessory and auxiliary services, such as terminals, warehouses, harbors, docks, landing fields, and so on. Public ownership of transportation services has been greatly extended in recent years. For example, government-owned railway systems—to mention only a few of the more important ones—are now found in Germany, France, Italy, Switzerland, the Scandinavian states, Japan, Australia, India, South Africa, and Canada. Communication facilities comprehend postal services, telegraph, telephone, and radio broadcasting. Postal services are universally conducted by governments, and in many cases the telephone and telegraph systems are similarly operated, being very often linked to the postal work. Radio broadcasting is sometimes publicly directed, notably in Great Britain, where it is a government monopoly. Public utilities include water,

gas, and electricity plants, and urban transit facilities. They are usually operated by the local governments, especially in Great Britain, where they are known as "trading" undertakings. Several governments maintain postal and state savings banks, regular state banks, and insurance establishments, promoting various kinds of insurance, such as fire, accident, hail, life, sickness, unemployment, and old age. Publicly owned industrial enterprises of a competitive character include flour mills, grain elevators, twine factories, cement plants, pipe works, brick plants, mines, and quarries. These concerns, however, represent only a random list drawn from those now operated by some of the state governments in Australia and in the United States. Industrial enterprises constituting state monopolies usually relate to the manufacture or sale, or both, of such articles as tobacco, liquor, salt, camphor, gunpowder, and matches. They are most commonly found among the governments of Europe, Asia, and Latin America, although recently liquor sales monopolies have been established by several provinces of Canada and by a few states of the United States.

It may be observed that the first three groups of enterprises noted above are not only essential to the ordered economic life of a highly developed society, but are also inherently monopolistic in character, and therefore subject to abuses when left in private hands. The enterprises of the fourth group are operated by the state mainly for the purpose of furnishing certain services, notably in the form of credit and insurance, which may be regarded as not obtainable on satisfactory terms from private concerns. The enterprises of the fifth group are undertaken by the government principally to reestablish competition in fields where private operators are assumed to have build up monopolies. The sixth group embraces the legally created state monopolies, sometimes designed to enforce police control in fields of activity which are deemed to generate antisocial forces, but more often to produce substantial sources of revenue through the sale of essential commodities.

The organization of public enterprises for administration

and management varies widely, not only as between groups but also as between governments. Some of these enterprises, notably the postal services, are organized as regular departments of government. As such, they are subjected to the same legislative and executive control as the other departments; the government assumes full responsibility for their financial operations and solvency, and their monetary requirements are passed through the general treasury and figure in the totals of the general budget. Notwithstanding the opportunity thus afforded for effective governmental control, this type of organization has certain drawbacks. It directly exposes the management of the enterprise to political patronage and departmental red tape, and it often has a deadening influence upon the administrative initiative and outlook required for the proper development of the enterprise. This is only too well illustrated by the Post Office Department of the United States government, which is admittedly the one patronage "plum" of any consequence now left to the political party in power.

The alternative to this type of organization for public enterprises is separation from the regular administration of the government. This separation is accomplished, in varying degrees, through the use of boards and "corporations," the latter being sometimes referred to in Great Britain as "public trusts." Boards are most commonly used, especially in America, where the members are appointed for long, overlapping terms and are usually removable only for causes specified in the law. It is hoped in this way to secure competent and experienced individuals to manage each enterprise, and to keep them on the job for some time without political harassment or interference. In recent years certain public enterprises have been given the form of corporate entities, particularly in the United States, Great Britain, and Germany. These enterprises likewise have their boards of trustees, or managing directors, the membership of which is sometimes selected only in part by the government. But their status is different from that of ordinary governmental departments; they are capable of owning prop-

erty, and of suing and being sued. Within the limitations originally imposed by the legislature, each of these enterprises is practically master in its own house. Some illustrations of these corporate forms are the Reconstruction Finance Corporation (RFC), the Tennessee Valley Authority (TVA), and the New York Port Authority in the United States; the British Broadcasting Corporation (BBC), the Central Electricity Board (CEB), and the Port of London Authority (PLA) in England; and the National Railway Company (*Reichsbahn-gesellschaft*) in Germany.

Perhaps some mention should be made in this connection of the so-called "mixed" enterprises, which are becoming quite popular among many governments of continental Europe. These enterprises are so organized that they are financed and operated jointly by the government and by private agencies. This scheme is regarded, at least from the capitalistic viewpoint, as a satisfactory alliance between individualism and socialism. Several advantages are claimed for it, although actual working experience with it is perhaps too brief as yet to be conclusive. The "mixed" enterprises, at the present time, are mainly local utilities and services. They are usually autonomous in the handling of their finances.

On the basis of present experience, one would be rash indeed to try to predict the most satisfactory form of organization for publicly owned enterprises in those representative governments which foster the capitalistic system. Some writers have a strong leaning toward autonomous corporations, believing that this type of organization is necessary in order to free these enterprises from "the ineptitude of control by popular assemblies." "The dependence of state undertakings on Parliament," says F. W. Eggleston (*State Socialism in Victoria*, p. 298), "leads to special difficulties in the elaboration of policy. Decisions of ministers are necessarily determined by party exigencies. . . . The most trivial consideration may delay decisions or deflect policy; a deficit is bad just before election, but taxation is worse, and to raise railway freights is absurd. . . .

It is peculiarly difficult to interest Parliament and the electorate in large enlightened schemes. You can get large-scale spending through Parliament, but not large-scale planning. Parochial considerations dictate the spreading of expenditures; party criticism can pick holes in the long-sighted policy and hold it up to ridicule. When a policy is in operation, preliminary losses, even when they have been anticipated and provided for, will cause embarrassment; parties will make capital out of small mistakes and items of policy with which they disagree; even the personality of managers will play a part."

Granting that there are these drawbacks to parliamentary control over public enterprises, other writers are of the opinion that they will, in the long run, prove less objectionable than certain tendencies and abuses which may spring from the system of independent boards and corporations. "Criticism and responsibility," M. E. Dimock (*British Public Utilities and National Development*, p. 318) maintains, "as ingredients in the constitutional structure, are too valuable to be given up. After a period of expansion and experimentation in public utility development, the problem of the following years is likely to be one of coördination and the reestablishment of responsible public control." He believes that "freedom of detailed administration coupled with unified responsibility for general policies" is the ultimate and desirable formula for governmental direction of public enterprises. A movement in this direction has already been noted in Australia, particularly in New South Wales, by F. A. Bland, who says (*Budget Control*, p. 90) that instead of the government conceding autonomy of management to certain state enterprises, it has made an effort to give them independent accounting, thus providing for separate funds and necessary reserves. This arrangement permits state direction of these enterprises, and is not in conflict, especially in the matter of borrowing funds, with the recent financial agreement between the Commonwealth and state governments. Furthermore, Bland says (p. 107) that these

changes "have been helpful insofar as they have (1) retained and even extended the opportunity of Parliament to consider the finances of the several undertakings, (2) separated the gross operations of the business undertakings from the ordinary governmental accounts, thereby avoiding exaggerated impressions of the cost of government, and (3) enabled the public to have a better appreciation of the actual financial results of the several undertakings."

Another aspect of this problem, which has been almost entirely overlooked, is brought out by G. D. H. Cole. He says (*The Next Ten Years in British Social and Economic Policy*, p. 136) that where public enterprises have been organized more or less on an autonomous basis, no central coördinating authority really exists. Parliament has simply created them with certain powers and functions and outlined their general policies, but, when once established, "they are left without any effective subsequent direction, save that spasmodic parliamentary intervention which does more harm than good." He concludes, therefore, by saying: "Society lacks at present a central organ for the control of economic policy. Until that is provided, no really satisfactory form can be developed for the socialization of any enterprise."

In the financing of public enterprises, the government-owned railways usually present the most complicated problems. This accounts for the fact that nearly every important system of state railways has undergone some financial reorganization since the World War. The result of this reorganization, generally speaking, has been to place the railway finances on a self-contained basis, but not, as a rule, to separate them completely from parliamentary control and from some connection, however remote, with the general budget. The one outstanding exception is the German National Railway Company, which is now an autonomous undertaking. This Company was organized in 1924. Under the terms of the Dawes Plan, it was required to pay from its earnings about one-third of the annual reparations for a period extending over forty years. The capital of

the Company was fixed at 26 billions of marks consisting of 15 billions of common and preferred stocks and 11 billions of reparations bonds. The property and equipment of the Company were mortgaged for the payment of the bonds, and a sinking fund was also established. The Reich guaranteed the payment of a dividend on the Company's preferred stock. Very soon after it began operating, the Company found that its chief difficulty lay in obtaining funds for improvements and extensions. Without the Reich's credit backing, these needs had to be met largely out of current income.

In 1926 the French railway system was made a corporate entity and given a large measure of autonomy in the handling of its finances. According to Allix (p. 174), the railway budget is no longer voted by Parliament, but is approved by decree, with the countersignatures of the Minister of Public Works and the Minister of Finance. The regular governmental procedures for the control of incurred expenditures and the auditing of financial transactions are not applied to the railway system. It is permitted to keep its accounts separately on a commercial basis and to control its receipts and expenditures. This arrangement, Allix maintains, has already stirred up justifiable criticism on the part of Parliament, and the Senate Finance Committee has declared that the suspension of direct control by Parliament over railway finances ought to be only a temporary matter.

The financing of the Swiss railway system has been continued along the lines established prior to the World War. When steps were taken in 1898 to acquire this system, it was decided to place its operation under a regular department, but to maintain its finances separately from those of the government. The Federal Council, or executive, therefore, presents the annual railway budget and accounts for legislative consideration, recommends the extension of lines and services, and deals with the retirement funds and sick benefits. The Federal Assembly approves the budget and accounts, authorizes loan and amortization plans, and ratifies agreements for acquiring

new lines or operating secondary lines. It also legislates generally on rates and on remuneration of employees. The railway system is not intended to yield revenue for the general budget, but its income, over and above operating costs, is used first to pay off the debt incurred in its acquisition, and after that to provide for such improvements in service, reduction in rates, and increase in wages as seem advisable. The profits from the system are therefore returned directly to the people rather than contributed to the support of the general government. The extinguishment of the railway debt is planned over a period of sixty years, and the annual requirements are thus computed and fixed in the railway budget.

The methods of financing the railway systems of Australia, India, South Africa, and Canada are quite similar from a budgetary standpoint. These systems are under the control of boards or trustees, appointed by the government, and their finances are more or less separated from those of the general governmental departments. In Australia, this separation is accomplished through the medium of the annexed budget, the net surplus or deficit of the railways being carried into the general budget. As a result of the reorganization of the Indian railway system in 1924 in keeping with the recommendations of the Acworth Committee, the financial requirements of that system are now presented to the legislative body as a separate budget prior to the submission of the general budget. Although considered by itself, this separate budget is in reality an annex to the general budget. The existing financial arrangements between the government and the railway administration really tie the two budgets together; the general budget receives a percentage of the surplus earnings of the railways, while it contributes out of revenue to cover any loss sustained by the railway administration in building and operating strategic lines. In South Africa, the railway system is managed with the idea that its earnings will merely be sufficient to cover operating expenses, reserves, and interest and retirement on capital. Any surplus earnings go toward improving facilities or reducing

rates, and if a deficit occurs, rates and charges are increased to cover it. The so-called "political" extensions or facilities, held to be commercially unjustifiable, are paid for from the general budget. Canada reorganized its railway system in 1933, placing the annual operating budget of the system under the control of the railway administration, but with this proviso: that the requirements for income deficits, for interest on obligations outstanding in public hands, for capital expenditures, and for refunding and retirement of maturing securities must be submitted to the Minister of Finance for consideration by the Cabinet and thereafter presented to Parliament. Income deficits may not be funded, and amounts voted by Parliament for capital purposes may not be diverted to cover operating deficits. The railway accounts are audited continuously by independent auditors, appointed annually by a resolution of Parliament, who report their findings to Parliament.

Aside from the government-owned railways, considerable thought has been given to the financing of such undertakings as water, gas, electric, and transit utilities, which are at present mainly owned and operated by municipalities. It is now generally agreed that an undertaking of this character should charge sufficiently for its services to meet the costs of operation, to maintain a working capital fund, to set up a depreciation reserve, to pay the interest on capital investment, and perhaps to pay certain taxes, or their equivalent, to the government. Some utility experts claim that in addition to these requirements, it should provide for debt retirement and for extensions out of its earnings, but others maintain that an added charge for these purposes is unfair to the consumers, especially one for debt retirement when a depreciation reserve is being maintained. Nevertheless, the undertaking is often required to earn something for the general budget over and above its expenditure needs. This is the practice in Germany and in some of the municipalities of the United States, but such practice is generally frowned upon in England. These undertakings frequently keep their accounts on a commercial basis, and often

place their earnings in separate funds. Their financial requirements are usually presented through the general budget, in either gross or net amounts, more often the latter. Sometimes they are set out in independent budgets. In any event, financial supervision is generally maintained over them by the governmental authorities, particularly with respect to incurring indebtedness.

So far as the other groups of public enterprises are concerned, it cannot be said that their financing has been studied thoroughly with the idea of evolving any definite rules of procedure, or of working out a satisfactory relationship with the general budget. It is apparent, however, that the methods now employed in connection with the railways and municipal utilities, point the way to a solution of many of the financial problems of the other groups. In the United States, ignorance or disregard of these methods has led to disastrous financial results in the case of certain state-owned businesses and industries, notably in some of the midwestern states which, within recent years, have launched a variety of public enterprises.

CHAPTER VI

FORMULATION OF THE BUDGET

THE formulation of the budget involves the preparation and assembling of estimates, both of income and of expenditure, the review and revision of these estimates, and the framing of the financial plan. The carrying out of the different steps in this procedure, as we have already pointed out in Chapter III, is almost universally a responsibility of the executive. But while this responsibility rests, in general, upon the executive, it is of such a peculiar nature that a plural executive cannot successfully meet its exacting requirements. This accounts for the fact that a cabinet or ministry as a whole does not formulate the budget. This task requires the time and attention of a single minister; hence the general practice among parliamentary governments of assigning to one member of the cabinet the work of framing the financial plan. Jéze likes to refer to this member as the "minister of budgetary balance." Ordinarily such member carries the title of minister of finance, but in England he is known as Chancellor of the Exchequer. It is his duty to assemble the expenditure estimates of the various governmental departments and agencies and to prepare, or have prepared, the estimates of revenues and receipts. In casting these estimates into budgetary form, he may revise them so as to insure a balanced relationship between income and outgo in the proposed financial plan. If his revisions involve questions of general policy, he is usually required to take them up with the cabinet for collective determination before embodying the changes in the budget.

But obviously this situation does not obtain where there is a single executive, as in presidential or dictatorial governments.

Nevertheless, even in these governments the executive generally has a subordinate officer, who performs the task of preparing the budget according to his directions. In the United States, this officer is known as the Director of the Budget. Any authority, aside from routine duties, which the Director of the Budget may exercise in the revision of the estimates is usually delegated to him by the President; so in the end, responsibility for the financial plan falls not upon him, but upon the President.

STAFF AGENCIES FOR THE PREPARATION OF THE BUDGET

The work of assembling the estimates and compiling the information necessary for the preparation of the budget requires a staff, the number of persons depending upon the size of the government. This staff is most satisfactory when it consists of permanent officials and employees, who have an intimate knowledge of, or close connection with, the actual workings of the financial system of the government. For this reason the finance or treasury department, or a bureau of the budget associated with such department, provides the best form of budgetary staff agency. Outside the United States, the finance or treasury department is almost universally utilized in this way.

In England, the Chancellor of the Exchequer is assisted in the preparation of the budget by the staff of the Treasury, which is in reality under his direction. The Financial Secretary to the Treasury, working as his understudy, takes immediate charge of the expenditure estimates of the civil service and revenue departments. The navy and army estimates are considered separately by the Chancellor, since they usually involve broad questions of policy which the Admiralty and the War Office thresh out directly with him. The revenue estimates are prepared for the Treasury by the revenue departments, which are directly associated with the Treasury.

The preparation of the budget in each of the British dominions is in the hands of the minister of finance, who has the staff assistance of the department of finance. In France, the budget

is prepared jointly by the Minister of Finance and the Minister of the Budget, but most of the work of assembling and compiling the estimates is performed by a division of the staff in the Ministry of Finance, thus continuing the practice established prior to the creation of the Ministry of the Budget. Among the other European states, the budget is generally prepared by a section of the staff in the finance department, working under the directions of the minister of finance. This is also the practice in Japan. But none of these states has such a wealth of planning agencies and technical staffs, which focus their knowledge and energy on the preparation of the budget, as has Soviet Russia.

The national budget system of the United States, when established in 1921, created the Bureau of the Budget to act as the staff agency to the President in the preparation of the budget. While this Bureau is placed by law in the Treasury Department, it is really attached to the President's office. The head of the Bureau, the Director of the Budget, is appointed by and serves at the pleasure of the President. This tends to make him the personal representative of the President in budgetary matters, which Willoughby regards as one of the important features of the system. The Bureau staff consists of about thirty-five persons, working mainly upon the estimates and supporting data. The expenditure estimates are furnished by the various departments and establishments, while the revenue estimates are supplied by the Treasury Department. The Director and his subordinate officers hold conferences on the expenditure estimates and revise them according to the President's instructions. Prior to these conferences, the estimates are studied by Bureau investigators, who are assigned to examine the needs of the departments and establishments in the light of their actual operations. Each department or establishment has a budget officer who serves as the contact agent with the Bureau of the Budget.

The bureau type of budget staff agency is also found in several state and municipal governments of the United States.

Another type, equally as popular among these governments, is the department of finance. This department usually exercises wide powers of fiscal administration and control, which ordinarily do not belong to the budget bureau. Its position under the executive is also different from that of the bureau, since it usually has the status of a regular department and its head is one of the important administrative officers. In this respect it is similar to the English Treasury.

BUDGETARY INFORMATION—ITS NATURE AND CLASSIFICATION

The information required in the preparation of the budget is just as varied and extensive as are the functions and operations of the government. It involves the existing governmental policy, especially those aspects which pertain to the expansion, contraction, or elimination of established public agencies and to the development of new ones; to the forms of taxation and other sources of income; and to the discharge of current financial obligations, or the assumption of additional obligations. It touches the economic, industrial, and social conditions of the country and their influence on the revenue and expenditure of the government. It comprehends quite specifically the current financial requirements of the government, setting forth on a comparative basis and in great detail the estimated needs with respect both to income and to outgo. These needs are usually expressed in terms of revenues by sources and of expenditures by purchases and payments, the expenditures being supported by cost data, when available, showing functional performance and indicating probable trends. From such facts and figures the budget maker devises the financial plan of the government.

But the budget maker always works within a given frame; his efforts are circumscribed by constitutional and statutory provisions, and his vision is limited by local traditions and policies. Several matters press upon him which give him little or no choice, such as governmental jurisdiction and scope of functions, departmental organization and methods, obligatory

expenditures (like interest, debt retirement, pensions, and social insurance), established forms of taxation, and formal methods of meeting capital or emergency requirements. But even so, he must secure some flexibility in financial planning in order to meet the economic, industrial, and social conditions, which are forever changing. These vexatious predicaments are his Scylla and Charybdis; and it is often difficult for him to steer a safe course between financial rocks, on one side, and political whirlpools, on the other.

Budgetary estimates are merely guesses based upon the current and past financial experience of the government. If this experience is carefully and comprehensively recorded, thoroughly analyzed, and tempered with sound judgment, then the guesses with respect to future needs are likely to be as accurate as it is humanly possible to make them. Satisfactory recording of financial experience depends upon a modern and efficient accounting system, which we shall discuss briefly in Chapter VIII. Ready analysis of accounting figures is obtained through proper classification of all the transactions relating to the income and expenditure of the government.

Classification of Income and Expenditure

The systematic classification of governmental income and expenditure is a recent achievement in the United States. Even so, it has advanced, both in theory and practice, beyond that of any other country. In England, according to Hills, "a scientific analysis of expenditure is lacking." He observes that "in the larger estimates the votes and subheads do not record the total cost of any specific object of expenditure, but show the cost of a single item, such as pay, which is relevant to many services. The result is that it is almost impossible to calculate the true and complete cost of any particular service, an obvious handicap in criticising expense. Comparison is thereby made difficult." Bland indicates that the so-called objects classification has been applied in some of the Australian states, although it is still in the experimental stage.

About thirty years ago, the United States Bureau of the Census made the first attempt at a comprehensive classification of the financial requirements of municipal governments. This classification grouped expenditures along functional and character lines, and arranged revenues by sources. It was, and is still, employed mainly for statistical purposes. A few years later—in 1909, to be exact—the New York Bureau of Municipal Research devised an objects classification of expenditures for application in New York City, designed to systematize the accounting analyses and to standardize the budgetary information. When President Taft's Commission on Economy and Efficiency studied the financial operations of the national government from 1910 to 1913, it found a "confusion of tongues" among the several spending departments and agencies which made any uniform reporting of financial information practically impossible. As a prelude to the establishment of a budget system, it undertook to develop a classification of federal expenditures in terms of objects purchased or paid for by the government. This classification, though not adopted, was made the basis of the one now employed in the accounting and budgeting work of the national government. It was also used, to some extent, as a model in the development of expenditure classifications for several state and municipal governments.

At the present time, governmental income in the United States is commonly classified from three standpoints: (1) sources from which derived, (2) collecting agencies, and (3) funds to which credited. The classification of income by sources provides information of primary importance in budgeting and financial administration. The most logical and systematic classification by sources now in use groups income under three main divisions: revenues, borrowings, and liquidated assets (sales of properties, and realization on loans and investments). At times, currency manipulation or inflation may constitute a fourth major source of income, particularly in the case of national governments. Thus public income assumes a much broader connotation than private income, as Dalton has

pointed out in his *Principles of Public Finance* (7th ed., esp. p. 25). By way of itemization, revenues are subdivided into those derived from taxes, privileges, services, sales, interest, premiums, fines, forfeitures, grants, donations, assessments, and escheats. Such subdivisions include all those receipts coming into the public treasury which increase current assets without increasing current liabilities or without decreasing capital assets. The classification of income by collecting agencies needs no explanation. While it is the simplest and most common grouping, especially of revenues, it is devoid of any uniformity. The classification of income by funds is necessary where a government does not maintain one fund—a general, or consolidated, fund. This is the case in most of the governmental units of the United States. The most common grouping by funds is as follows: general fund, special expendable funds (expense, capital, local improvement, pension, etc.), sinking funds, working capital funds, and endowment funds. This grouping is based upon the availability for expenditure of the moneys when placed in the several funds. Moneys in the general fund are usually expendable for any purpose to which the legislature may appropriate them, while moneys in the other funds are more or less restricted in their application, as indicated by the titles of those funds.

Governmental expenditures are now classified in the United States on at least five bases, as follows: functions, organization units, objects, character, and funds. The functional classification is widely used in summarizing budgetary information and in statistical reports. Its groupings, however, generally lack uniformity. This is due to the fact that the work of government is not logically predetermined and so arranged in departments. The distribution of departmental functions, as Dalton says, "is often determined by historical accident, or by the desires of influential politicians wishing to magnify their office, or by the mutual jealousy or vested interests of officials." The classification by organization units (departments, bureaus, divisions, and agencies) also lacks uniformity for the same reasons.

But this classification is basic in any effective system of financial control, since it establishes definite administrative responsibility in making expenditures. Estimates and appropriations, for this reason, always center around it. The objects classification of expenditures is the one in which the greatest uniformity obtains. It is also susceptible of the most detailed break-down in accounting and statistical analysis. The main groups of this classification, in its simplest form, are: (1) personal services (salaries and wages), (2) contractual services (work performed for the government by private persons under express or implied agreements), (3) commodities (supplies and materials), (4) current charges (rents, insurance, etc.), (5) current obligations (interest, pensions, taxes), (6) properties (equipment, buildings, improvements, and land), and (7) debt retirement. The first four groups constitute what are known as current expenses; the fifth, fixed charges; the sixth, and sometimes the seventh, capital outlays. This arrangement is the character classification of expenditures; it is intended mainly to distinguish expenditures for operation and maintenance from those that increase the capital assets of the government. The general nature of the fund classification has been indicated above under the discussion of income.¹

ESTIMATING EXPENDITURES AND REVENUES

One of the necessary preliminaries of budgetary estimating is the announcement by the executive or the finance minister of a general policy, which is to serve as a guide to the officers of the spending departments and agencies in preparing their estimates. This is accomplished in England through the issuance by the Treasury on October 1 of the so-called "estimates circular," which goes to the responsible officers in the civil departments, requesting them to prepare estimates for the coming financial year. "There are," says Young, "two stereotyped admonitions in this circular: one is general, that the state of

¹ A more extended discussion of classification will be found in Chapter VII of the writer's work on *Public Budgeting*.

the public revenue demands the utmost economy; the other is a particular warning against assuming last year's estimates as the starting point for those of the next." The latter warning, he thinks, is necessary. "It must always be a temptation," he continues, "to one drawing up an estimate to save himself trouble by taking last year's estimate for granted, adding something to any item for which an increased expenditure is foreseen. Nothing could be easier, or more wasteful and extravagant. It is in that way that obsolete expenditure is enabled to make its appearance year after year in the estimates, long after all reason for it has ceased to be. By warning and by the general admonition as to the need for economy the departments are no doubt fully impressed." But this is not all. The Treasury is engaged throughout the year in "threshing out questions of expenditure and economy" with the departments. So, as Young puts it, "when the estimates come to be prepared, as regards most of the changes in them the departments have only to embody the result of conclusions already come to by the Treasury and themselves, and the Treasury has only to see that the course which it has decided upon is followed. Sometimes, it may be, a department will make the actual preparation of the estimates an opportunity to have another try for something that it has been refused."

During his administration, in June or July of each year, President Coolidge regularly announced his "policy" with reference to the preparation of estimates for the forthcoming national budget. He set a grand total for the operating departments and establishments of the government, and instructed the Director of the Budget to see that the several estimates were kept within this total. In carrying out this instruction, the Director usually apportioned the total to the various departments and establishments as he understood their needs. Such apportionments were, of course, only rough approximations, but they served to indicate to the estimating officers the general limits within which they were supposed to work in preparing their requests for appropriations. President Hoover

allowed this practice to lapse during his administration, but President Roosevelt revived it in the preparation of the budget for 1934-35. A similar practice is followed by some governors and city managers, but with more emphasis on prospective income.

Estimate forms or blanks, with detailed instructions for filling them out, are also among the necessary preliminaries of budgetary estimating in practically every country. In the United States, however, the use of such forms is often overworked, resulting in large printing costs with little return in the way of really informative facts and figures. It should not be forgotten that only a part of the information which the budget maker needs can be shown on the estimate forms. He requires a general knowledge of the actual working of the several departments, and this cannot possibly be obtained from the data on these forms. But just the same, they are necessary to present the detailed estimates and certain comparative information. When properly designed, such forms simplify the task of the responsible departmental officers in stating their requests, insure some degree of uniformity in the presentation of the estimates, and aid in setting forth the myriads of details—the necessary budgetary minutiae—according to whatever classification is in use. In practice, some estimate forms go into great detail, others are more general; some ask for information on only one year prior to the budget period, others ask for two, three, or four years; some request figures of a cost nature, others omit such data; some provide for recapitulation, others do not. But a standard estimate form, or set of forms, is hardly possible, since it must conform to the varied demands for budgetary information in each government.

The preliminaries just noted are of little avail, however, if the estimates are not accurately and honestly prepared. This involves the ability and integrity of the responsible officers in the various departments and agencies. "On the correctness of the estimates," wrote Bastable, "rests, in a great degree, the success of the budget, and no parliamentary majorities, or use

of official power, can alter the hard facts of finance. Sincerity and care are both needed for success in this operation." Stourm was even more emphatic on this point. "Correct estimates," he said, "demand two primary qualities: wisdom and sincerity. Wisdom enables those engaged in preparing the budget to see the future clearly—as clearly as possible; sincerity compels them to state the truth when they have ascertained it. These two qualities go hand in hand. What is the use of being sincere if one is not sagacious; and of what value is wisdom if, through lack of sincerity, the light be hid under a bushel? Which is better, not to see the truth or not to tell the truth—to deceive or to be deceived? Let us repeat, that the combination of these two qualities alone leads to correct estimates." In the past Americans have rather overlooked the fact that these personal qualities loom very large in budget making. Not only are estimates often "padded" by unscrupulous spending officers, but sometimes the budget is balanced dishonestly through the juggling of figures in keeping with the political motives or ends of the budget maker. It is an easy matter to increase the estimates of revenues, or decrease those of expenditures, and thus bring them into equilibrium without the public becoming aware of the real financial situation.

Methods of Estimating Expenditures

The preparation of the expenditure estimates is essentially a task for the responsible officers of the various governmental departments and agencies, notwithstanding the instructions, the estimate forms, and the comparative figures on previous and current expenditures which may be supplied by the budget maker or his staff of assistants. The quality of the estimates depends entirely upon the experience and judgment of these officers, and upon their foresight in guessing future needs, prices, and conditions.

Accurate estimating of expenditures is not accomplished through lump-sum amounts, but only through detailed analysis. Such analysis usually follows suborganizational or functional

divisions in each department, and extends down through activities to objects. When the objects are reached and specified, it is then a simple matter to calculate the required expenditures by the use of anticipated unit prices. But do current or past requirements have any value in this connection? Undoubtedly so; they are facts which should be regarded as elements in the calculation, although they should not be accepted as inevitably indicative of future needs and the necessity for a sustained level of expenditure. Governmental conditions usually change from year to year and service requirements vary, or should vary, in keeping with these conditions. This is not a baffling situation, but a simple fact that the estimator must always keep in mind. "Special emergencies apart," says Bastable, "expenditure is well within the field of rational prevision."

If governmental expenditures are divided into groups according to character, namely, current expenses (operation and maintenance), fixed charges or obligations, acquisition of properties, and debt retirement, it will be found that the second and fourth groups can be mathematically calculated, that the third group can usually be fixed within a maximum amount, and that only the first group must be estimated on the basis of services, quantities, prices, and conditions. And even current expenses may contain some constant factors, such as statutory salaries. Hence the governmental expenditures which must be estimated by indirect processes, rather than by direct calculations, are reduced to 50 or 60 per cent of the total.

Methods of Estimating Revenues

The revenue estimates are prepared by the Ministry of Finance in France, and likewise in most of the governments of continental Europe. In England, they are prepared by the revenue departments, principally the Statistical Office of the Board of Customs and Excise, for the Treasury; and in the United States, by certain divisions of the Treasury Department for the Bureau of the Budget. The estimating agencies are thus quite similar in all these instances. In making the

estimates, three methods are commonly employed: the automatic method, the method of average increases, and the method of direct valuation.

The automatic method is inflexible, and leaves little or nothing to the judgment of the estimator. It is employed principally in France, where it is usually referred to as "the method of the penultimate year" (*méthode de la pénultième année*). It consists simply of entering, as the estimates for the budget year, the actual revenue receipts of the most recently completed fiscal year, which in France is the last but one preceding the budget year. This method has the serious drawback, admitted even by its ardent supporters, of producing underestimates in times of prosperity and overestimates under conditions of adversity. For this reason the *rapporteur général* of the Finance Committee of the Chamber of Deputies recently recommended that the revenue estimates should be based on the actual receipts of the twelve months nearest the date of framing the budget, which would move the penultimate period approximately six months nearer to the budget year. But it is a difficult matter to modify a method which was established in 1823, and, according to Allix, has remained in force ever since, at least in theory, if not in actual practice. The Minister of Finance and the finance committees of Parliament have often proclaimed the virtue of this method, says Stourm, "in order to shield their sincerity from any possible suspicion."

The method of average increases (*méthode des majorations*) is also a French device, which was substituted for a short period during the early eighties of the last century for the automatic method. At that time, the latter method had produced large surpluses in the treasury, thus bringing about extravagant spending. It was therefore decided to use the figures of the penultimate year as the base of estimating, but to add to these figures the average increases for the preceding three years, or, as was done later, for five years. This produced larger revenue estimates when receipts were definitely on the upswing, and the estimates more nearly agreed with actual col-

lections. But when receipts started to decline, as they did very shortly after the method was adopted, the estimates produced larger deficits in the treasury than would have been the case under the older method. This condition led at once to an abandonment of the method of average increases and a return to the automatic method. The latter method, "the reliability of which excludes all fanciful assumptions," seems, according to Stourm, to be quite well suited to the French attitude of mind. But while France has discarded it, other governments have used the method of average increases, or at least adaptations of it. Many state and local governments in the United States estimate their revenues on the basis of averages extending over periods of three or five years. These averages are applied to the receipts of the last completed fiscal year either as increments or as decrements, depending upon conditions. This scheme may produce satisfactory estimates for those sources of revenue which are fairly constant or change at some given rate from year to year, but it is not suited to estimating sources which fluctuate.

The method of direct valuation in estimating revenues is of English origin. On account of its flexibility, however, it has been applied rather widely, notably in Germany and in the United States. Inasmuch as the English budget is submitted to the House of Commons a few days after the opening of the financial year to which it applies, the revenues may be estimated on the basis of the receipts of the year just closed and with full knowledge of conditions actually current at the beginning of the budget year. Even so, the accuracy of the revenue estimates arrived at under the method of direct valuation depends to a large degree upon personal judgment. But this judgment, under the conditions which govern British practice, is always seasoned with experience and fortified by statistics. The greater part of the work of estimating revenues for the English budget is done by the Statistical Office of the Board of Customs and Excise. "There they have records," says Young, "of the yields of all taxes for many years, which show their

normal rates of increase with growing wealth and population, the effect of any change in rates, and that of any special circumstances such as strikes, wars, and unusual weather. By taking the last year's yields as a basis, adding or subtracting a normal amount for the regular increases or decreases which the records show to be in progress, and making a correction for any abnormal disturbing influence which it is possible to foresee, a very exact estimate can be made of the revenue in the coming year. Armed with that, the Chancellor knows as well as man can know how he stands, and how he may best meet the demands of the spending departments."

The English financial officers and statisticians may be justly proud of the revenue estimates which they have produced. At no time during the last few years, uncertain as business and economic conditions have been, has there been a variation of more than 2.5 per cent between the total estimates and the total collections. It was in the budget for 1932-33 that the total receipts fell below the total estimates by this maximum percentage. The widest variations among the individual sources of revenue in that budget were in the income tax, with receipts 3.2 per cent below the estimates, and in the customs and excise taxes, with receipts 3.9 per cent below the estimates.

As compared with the English estimates of revenue, the wild guesses which have passed for revenue estimates in the national budgets of the United States during the past ten or twelve years ought to put to shame the officers and statisticians of the Treasury Department. In the eight budgets between the middle of 1922 and the middle of 1930, the revenue receipts were consistently underestimated by amounts ranging from 2 to 16 per cent, the actual variations being in the neighborhood of 8 per cent in the case of four of these budgets. Then came the great slump in business and industry throughout the country. The budget for 1930-31 carried revenue estimates which proved to be 24 per cent above the actual receipts, an error that might be excused, in some measure, due to the time at which the estimates were prepared. But the budget for 1931-32 pre-

sented revenue estimates which turned out to be 47 per cent above the actual receipts! And when the full force of the depression had been felt, along came the budget for 1932-33 with revenue estimates overshooting the mark of actual receipts by 19 per cent.

No really good excuse can be offered for such faulty revenue estimating. The requirement that the revenue estimates must be prepared eight or nine months prior to the opening of the budget period to which they relate has been offered as an extenuating factor. But under the twentieth amendment, the budget is now presented to Congress by the President within less than six months of the beginning of the fiscal year to which it applies. This time may even be shortened to five months or less, certainly in the case of a newly elected President, as we shall point out farther on in this chapter. Congress would still have ample time, during a regular session of four or five months, to consider the budget and to enact the necessary appropriation and revenue measures. But the shortening of the intervening time is not the only factor to be considered in securing better revenue estimates. The administrative routine of the Treasury Department now followed in making these estimates is also at fault. Under this routine, the political aspects of the day receive large emphasis, while facts and figures are more or less pushed into the background. The emphasis, judging from British practice, should be the other way around. The opinions of the statistical staff of the Treasury Department, rather than of the political heads of the revenue divisions and bureaus, should be given greater weight in determining the final revenue estimates.

PREPARATION AND ASSEMBLING OF THE ESTIMATES

The general practice among governments is to require the responsible officers of the spending departments and agencies to prepare only one set of estimates. Previous planning by the Treasury, however, accompanies this practice in England. Preparations for the budget are started several months in ad-

vance of the opening of the financial year on April 1. "All through the preceding summer," says Hills, "there will have been those informal conversations between the spending departments and the Treasury as to their financial needs in the coming year, which precede the formulation of its probable requirements by each department, for no change may be inserted in the estimates unless due authority has already been obtained. Much ground has therefore been cleared before the first formal step is taken, the issue by the Treasury of the Estimates Circular on October 1."

The scheme of "preliminary" estimates is followed by some governments. The Japanese Minister of Finance requires such estimates to be prepared by the spending department about ten months before the opening of the next budget period. These estimates are reviewed by the Minister, who formulates certain recommendations with respect to them, and then holds a meeting of the Cabinet for general discussion of the tentative requirements. Within two months, or less, the decisions reached by the Cabinet are communicated to the spending departments and they are required to prepare revised estimates. The United States Bureau of the Budget has as a rule employed a similar method, requiring preliminary estimates to be submitted by the spending departments and establishments some ten or eleven months before the beginning of the next budget year. These estimates enable the Bureau to determine to what extent the requests of each department or establishment must be reduced to bring them within the figure set by the President for the total budget. Certain changes are suggested by the Bureau, and the various departments and establishments are then asked to prepare revised estimates in keeping with these proposals.

In England, the expenditure estimates are usually filed with the Treasury around December 1, which is four months before the opening of the financial year to which they apply. Some of the estimates may be delayed for another month or six weeks, but in any event they are usually assembled, printed, and placed before the House of Commons early in February. This

allows time for an examination of the estimates by the House and the passage of a bill providing the "votes on account" before April 1. But in the United States, expenditure estimating for the national government is much farther removed from the opening of the budget period. Prior to 1934, when the provisions of the twentieth amendment became operative, the departments were required to file their estimates with the Bureau of the Budget by September 15, or at the latest by October 15. This was necessary so that the budget might be ready for submission to Congress early in December. But under the twentieth amendment Congress does not meet in regular session until January 3; for the purpose of the amendment was to enable those congressmen who were elected in November to sit immediately, thereby eliminating the "lame ducks," or defeated congressmen, who used to sit in the session following the election. The estimates may now be filed with the Bureau of the Budget as late as November 15 and still allow sufficient time for the preparation of the budget, even when submitted to Congress early in January, as was the case in 1934. In view of the fact that the twentieth amendment provides that a newly elected President shall take office on January 20, or seventeen days after Congress meets, it would seem advisable to move forward the date of submitting the budget to Congress to at least, February 1. The incoming President would thus be given an opportunity to prepare the budget message, outlining his financial policy for the next fiscal year, before presenting the budget to Congress. Indeed, the budget might be presented to Congress regularly between February 1 and 15, inasmuch as the revised expenditure estimates are already in the hands of the appropriations committees of the two houses before the opening of the session. Delay in presenting the budget to Congress would not, therefore, hold up the work of these committees, and it would undoubtedly increase the accuracy of the estimates, which could then be prepared within six months of the opening of the budget period.

REVIEW AND REVISION OF THE ESTIMATES

Inasmuch as departmental spending officers do not view the needs of the government as a whole and are chiefly interested in their own requirements, it is necessary that their estimates should be carefully reviewed and revised by the budget maker and his staff of assistants. The task of revision is greatly simplified where the budget agency maintains constant supervision over the spending officers, as is the practice in England. There the Treasury, as we have already noted, is not confined in its criticism of departmental spending to the period between the receipt of the estimates and their presentation to Parliament. Even so, it does not overlook the opportunity to examine and check the estimates, a special officer called the Estimates Clerk being assigned to supervise this task. "In general," says Young, "the Treasury criticises, suggests and amends, and in any difference of opinion with the department which prepared the estimate it has the last word. Having run the gauntlet at the Treasury, having been subjected there to a detailed examination and gained a final approval, the Civil Service estimates are ready for presentation to Parliament." But the fighting services, the army, navy, and air forces, are accorded a somewhat different treatment, owing to the fact that their estimates often "involve great issues of policy and large sums of money." For this reason the Chancellor of the Exchequer usually gives his personal attention to them, while the Financial Secretary to the Treasury handles the estimates of the civil departments. There are no limits placed on the revision of the estimates by the Treasury, except those imposed by "bargaining," as Hills puts it. If a spending department holds out doggedly against the revision of the Treasury, the Chancellor of the Exchequer may find it necessary to carry the matter to the Cabinet and the Prime Minister for a decision, but this step is rarely necessary.

In the United States, the President may direct the Bureau of the Budget to revise all estimates, except those of Congress

and the Supreme Court. The law requires that the latter estimates must be included in the budget without revision. This limitation, as noted in Chapter III, is an expression of the doctrine of tripartite division of powers in the American system. Some state governments have gone even farther in limiting the executive's power of revision over the estimates; in Maryland, for instance, the governor is prohibited from revising the estimates of the legislature, the judiciary, or the public schools.

The American approach to the task of revising the estimates, where revision is permitted, is usually through conferences. After a detailed examination of the estimates by the investigators of the budget staff, the spending officers are called into conferences with the executive, or the head of the budget staff, or both. In the course of these meetings, or shortly thereafter, the estimates are revised by the executive, or by the head of the budget staff with the executive's approval. The Director of the national Bureau of the Budget and his subordinate officers constitute a so-called "board of estimates," which conducts conferences with departmental heads, bureau chiefs, and other spending officers upon their estimates and the facts presented therewith. On the basis of the agreements reached at these conferences, tentative revisions are made in the estimates, which become final upon the President's approval. The President, however, is not confined to these revisions; he may make further changes or adjustments as he may see fit. The governors of several states follow a similar procedure, although they are usually more intimately associated with the conferences, or "hearings," and with the actual revision of the estimates than is the President.

When the expenditure estimates have been reviewed and revised and the revenue estimates have been finally determined, the next task for the budget maker and his staff is to summarize these estimates and fashion them into the financial plan, according to the form of the budget document, or documents, described in the preceding chapter. While this task may be regarded as largely routine, it is not always a simple matter.

But we do not need to comment upon the actual process of compiling the estimates and preparing the summary tables and schedules, except to say that it is work that requires some experience and also certain mechanical equipment if it is to be performed accurately and expeditiously.

CHAPTER VII

AUTHORIZATION OF THE BUDGET

UNDER representative governments of the parliamentary and congressional types, the authorization of the budget, as we have already said, is essentially a function of the legislature. As such, it will constitute the subject matter of this chapter. We shall not, therefore, concern ourselves with those governmental forms and practices, previously discussed in Chapter III, which deny to the legislature the right of budgetary authorization.

The authorization of the budget, as the term is used here, connotes the whole legislative procedure of receiving, examining, criticizing, discussing, modifying, and voting the financial plan as formulated by the executive. Generally speaking, this is the meaning of the term, although "voting of the budget" is sometimes used as its equivalent. In English usage, however, "authorization" is quite distinct from "voting." The estimates of expenditure are authorized by the House of Commons sitting as a Committee of Supply, and several weeks later they are voted by the House in the form of an appropriation act. Likewise, the tax proposals to balance the budget are authorized by a resolution of the Committee of Ways and Means (also of the whole House) adopted immediately after the budget speech is delivered by the Chancellor of the Exchequer, but they are not formally voted by the House until some time later. American usage, on the other hand, has tended to avoid both these terms and to refer to legislative action on the budget as merely the "enactment of the budget bills." This is due to the fact that legislative consideration of the budget in the United States usually presupposes the introduction of appro-

priation, or appropriation and revenue, bills, referred to as the "budget bills," in one or both houses of the legislature.

LEGISLATIVE ORGANIZATION IN RELATION TO BUDGETING

Perhaps a clearer picture of the part the legislature plays in the authorization of the budget may be obtained by prefacing our discussion with a summary description of legislative organization. From the standpoint of general structure, the legislative bodies of existing parliamentary and congressional governments are of two types, bicameral and unicameral. Under the bicameral type, the legislative body consists of two houses, which usually differ in size, method of selecting the membership, and the quality and political experience of the members. The lower house is generally, though not always, the more numerous from the standpoint of membership. Its members as a rule are popularly elected for a definite term, and they may qualify for office at an earlier age than those of the upper house. The members of the upper house, or second chamber, are sometimes popularly elected, but more frequently they are chosen by some indirect method or by appointment. In some instances, they serve for life. They are usually older and more experienced in political affairs than the members of the lower house. At one time, they represented the aristocratic or conservative elements as opposed to the democratic or progressive tendencies of the members of the lower house, but this situation no longer obtains in many of the bicameral bodies. Under some of the newer constitutions, notably that of Czechoslovakia, the composition of the upper house has become almost as democratic as that of the lower house, the members of each being popularly elected for definite terms. For this reason one of the main arguments for the bicameral system, namely, that a second consideration of all measures by a more stable and more conservative upper house is necessary before they become laws, seems greatly weakened.

Then, too, parliamentary government tends to undermine the bicameral system by making the cabinet responsible only

to the lower house. It is inevitable in such event that the upper house must decline considerably in influence and be compelled to take a subordinate place. We have indicated in Chapter I how the growth of the Cabinet in England was accompanied by a steady loss of power on the part of the House of Lords, particularly in connection with the budget. In France, the Senate remains comparatively strong because the Ministry is unusually weak and some revising authority for legislation has been found useful in the absence of a strong Ministry to lead the Chamber of Deputies. Under congressional government, on the other hand, the upper house has usually increased its authority at the expense of the lower house and has frequently overshadowed the latter. This is especially true in the United States, where the Senate carries more weight than the House of Representatives, attracts the best political talent of the country, and "holds a place among the second chambers of the world inferior to none."

The bicameral system has long been regarded as indispensable to the successful working of federal government. It was thought that the upper house should be so constituted as to afford representation, usually on an equal basis, to the constituent states, provinces, or cantons. This was the principal idea behind the structure of the United States Senate, since copied by the Commonwealth of Australia. This idea was also embodied in the upper chamber of the Swiss legislative body. But in Canada it was applied somewhat differently, the members of the upper house being selected with little regard for the individual provinces. Furthermore, the subsequent working of the parliamentary system has greatly detracted from the importance of the Canadian Senate, the members of which no longer champion provincial rights and, according to Lees-Smith (*Second Chambers in Theory and Practice*, p. 68), are now "a body of very elderly politicians" who "enjoy a pension for the remainder of their lives at the public expense in return for faithful party services." A similar situation, though as yet much less exaggerated, has developed in Australia, where, as

Keith says (*The Constitutional Law of the British Dominions*, p. 205), "the Senate has completely failed to act as protector of the rights of the states, nor has it attracted politicians of any high order, who prefer the lower house, in which reputation and office can be won."

The bicameral system, at one time almost universally accepted, no longer enjoys that distinction. In recent years, especially since the World War, the unicameral legislature has become increasingly popular, as is evidenced by the new parliamentary governments of central Europe. Single-chambered legislative bodies were established by more than half of these governments, among which may be mentioned the four Baltic states (Finland, Estonia, Latvia, and Lithuania), Albania, Bulgaria, and Turkey. Yugoslavia also had a unicameral body for about ten years prior to 1931, at which time King Alexander, following his *coup d'état*, set up a second house designed to extend his authority over legislation. The Spanish Republic has provided for a single-chambered Cortes under its constitution adopted in 1931. In addition to these states, Norway has virtually a single-house legislature, the second chamber being in reality nothing more than a committee of the first. Sixteen of the twenty-two cantons of Switzerland, eight of the nine provinces (Quebec excepted) of the Dominion of Canada, and one state (Queensland) of the Commonwealth of Australia have unicameral legislatures. Lastly, five of the small Latin American republics have single-chambered legislatures.

Arguments for the unicameral system may be briefly summarized thus: reduced cost of operation, more expeditious handling of legislative business, elimination of dual committees and shifting of responsibility, and absence of deadlocks and friction which often occur between the houses, especially under congressional governments. These are weighty considerations, particularly from the viewpoint of the budgetary process; so much so indeed, that the unicameral system is likely to continue to find favor wherever old constitutions are revised or new ones are written. Even the supporters of the bicameral

system have in some instances come to the conclusion that it needs drastic reform, particularly in respect to parliamentary government. They think that the second chamber, if it is "to have any vitality or to play any valuable part in the work of legislation," must be chosen by an entirely new method, perhaps the method recommended by the proponents of functional representation; that is, election of the membership from chambers of commerce, trade unions, and other organizations designed to promote the interests of homogeneous economic groups. It may be noted in this connection that the German Economic Council, created by the Weimar constitution but allowed practically to lapse, has been revived and reorganized by the Hitler régime to constitute a sort of economic parliament, which functions during the suspension of the political Parliament. It may also be observed that the Italian Council of Corporations, set up in connection with the Fascist "corporate" state, now seems destined to supplant one or both houses of the Italian Parliament.

Relative Authority of the Chambers under the Bicameral System

The bicameral system raises the important question of the relative authority of the two houses, particularly as regards the budget. In parliamentary government, the authority of the lower house, owing to cabinet responsibility, is usually much greater than that of the upper house. This is outstandingly so in England, where the House of Lords, since the parliamentary act of 1911, has become one of the weakest upper houses in the world. It does not have power to amend either appropriation or revenue bills, and it may not any longer reject them as approved and submitted to it by the House of Commons.

The legislative subordination of the Lords to the Commons has, in general, been carried into the parliaments of the British dominions, although in most cases the upper houses of these parliaments have wider powers than the House of Lords. The Canadian Senate, however, has at times acted in such a weak or

indifferent manner as to drop almost completely out of the picture, leaving the legislative authority in the hands of the lower house acting virtually as a single chamber. In practice, the Australian Senate seems to have exercised its constitutional authority to a greater extent than any of the second chambers in the dominions. Under the budgetary procedure of the dominions, all money bills originate in the lower houses, just as they do in the English House of Commons. While the upper houses may not amend these bills (though the Australian Senate may suggest amendments to the lower house), they may reject them. In case of rejection, the matter is settled in the Union of South Africa and in the Irish Free State by a joint vote of the two houses, in which the lower house usually decides the issue because of its larger membership.

The French Senate is limited in budgetary matters by a constitutional provision which forbids it to initiate finance bills. These bills must first be introduced in and voted by the Chamber of Deputies. Beyond this point the language of the constitution is not explicit. This vagueness as to the power of the Senate over finance measures, together with the fact that the Senate enjoys power over general legislation equal to that of the Chamber, has led to prolonged controversy between the two chambers. It is now conceded that the Senate has the right to reduce appropriations which have been voted by the Chamber. But the Senate has made a further demand: it has asserted its right to restore items of appropriation and related provisions which the Ministry has recommended in the original budget but which have been reduced or eliminated by the Chamber. While the Chamber has disputed this right for years, it now permits the use of it when the budget is before the Senate for the first time. This practice has important political consequences, according to W. L. Middleton (*The French Political System*, p. 176): "By acting in this manner the Senate is often not merely asserting a prerogative, but is helping the Government as against the Chamber," for a "Government doubtful of its majority not infrequently submits in the Chamber to an

amendment which it regards as undesirable, because it counts on the Senate to restore the original clause."

The Belgian Senate, in respect to the budget, is not as strong as the French Senate, despite the close resemblance between the two governmental systems. The constitution of Czechoslovakia, although copied to a large extent from the French constitution, clearly places the upper house in a subordinate position, notwithstanding its power to initiate legislation.

Among the older governments of continental Europe with the bicameral system, the Netherlands has probably the weakest upper house, its authority in budgetary matters being almost as limited as that of the English House of Lords. In Denmark, the powers of the two houses are about equal, but all financial measures must be initiated in the lower house. The Swedish houses also have about equal powers over legislation; however, in the event of disagreement between the houses on budgetary measures, the matter is settled by a joint vote in which the lower house is always assured of more weight because of its larger membership. Under the Swiss system of government, which is neither parliamentary nor congressional, the upper house enjoys the same power as the lower house in budgetary matters: the budget as a rule is introduced simultaneously in both houses.

Under the Japanese governmental structure, fashioned largely after the old Prussian system, parliamentary usage now places the houses of the Diet on an equal footing in legislative matters. But the lower house may be regarded as having some advantage over the upper, since the budget is first introduced in it.

The German Reichsrat, or upper house, as it existed prior to its abolition in 1934 by the Nazi régime, could hardly have been called a second chamber, since it functioned quite differently from other second chambers under parliamentary government in that it did not criticize, suggest amendments, nor prevent haste in passing legislation. Under the provisions of the Weimar constitution it acted merely as a preliminary chamber in passing on cabinet, and other, measures before they were sub-

mitted to the Reichstag, or lower house, which had power to override its decision at any time.

Under congressional governments, the upper house usually has powers equal to those of the lower house; indeed, it sometimes completely overshadows the lower house in budgetary matters, in spite of the fact that the budget is generally initiated in the latter. Within recent years the United States Senate on several occasions has practically rewritten the appropriation and revenue measures which have come to it from the House of Representatives. There are no constitutional, or even customary, limitations set on its action in this respect. The Senate may amend these measures in any way it sees fit, or it may reject them *in toto* except the enacting clause, substituting provisions to its own liking. Since the establishment of the budget system in 1921, the Senate has not only opposed the wishes of the House at times, but also those of the President, apparently refusing to acknowledge executive leadership in relation to the budget.

In nearly all the American state legislatures, the upper house exercises authority equally with the lower in amending the appropriation and revenue measures. Any constitutional limitation upon the legislative handling of these measures usually applies to both alike. Much the same arrangement exists in the Latin American governments, where the houses as a rule are on an equal footing in considering the budget bills, although these bills usually originate in the lower house.

Deadlocks between the legislative houses are likely to occur under the bicameral system whenever the houses have, or approach, equal powers. No satisfactory method of breaking these deadlocks has as yet been applied under congressional government. The usual expedient is to exert political pressure along party lines, and if this does not work, to allow the measure or issue in question to be deferred until another legislative session or simply to go by the board. Under parliamentary government, however, the problem of deadlocks has been met rather effectively by dissolution of the houses, by joint voting,

or by a combination of the two. We have already noted the Swedish method of joint voting in case of a disagreement between the houses, the question at issue being settled by a majority vote. A similar method, taken in part from Australian provisions, is applied in the Union of South Africa and in the Irish Free State. When the Australian Senate rejects a bill passed by the House of Representatives, the House may repass it after three months, and if the Senate again rejects it the Governor General may dissolve both houses simultaneously, so that the general election which follows will be in the nature of a referendum on the disputed bill. After the election, if the houses do not agree on the bill,—and this rarely happens,—the Governor General may call for a joint sitting of the houses, in which the majority vote decides the issue. Incidentally, the House has twice the strength of the Senate in this vote, since it has twice the number of members.

Internal Organization—Legislative Committee Systems

The internal organization of the legislative body for the purpose of carrying on its work has an important bearing on the budget. While the main feature of this organization is the committee arrangement, a few words about the speakership may not be amiss. Under the English parliamentary organization the speakership of the House of Commons is nonpolitical in character and has been so for more than a century. The speaker, when he shows ability, is usually reflected from session to session, regardless of what party is in power in the House. Principally for this reason he has been entrusted with powers which would not have been given to a party representative; for example, the power of deciding whether a bill is, or is not, a money bill. His position, therefore, is one of great dignity and impartiality. It stands in striking contrast to that of the speaker of the American House of Representatives. The latter is quite frankly a party man, who is expected to serve the party interests in so far as he can without being too openly, or too flagrantly, unfair to the opposition. His attitude when shaped

entirely by political motives may, and often does, profoundly affect the handling of budgetary measures in the House.

Perhaps the simplest committee arrangement for legislative consideration of the budget is the one employed by the English House of Commons. There are two major committees, the Committee of Supply and the Committee of Ways and Means, both of which are committees of the whole House. The Committee of Supply authorizes the annual expenditures by voting the estimates which are presented to it. The Committee of Ways and Means performs a double function, as its name implies. It authorizes the issue from the consolidated fund of an amount equal to the total voted by the Committee of Supply, thus providing a way for the government to meet its expenditures; it also authorizes taxes to produce income for the consolidated fund as the means whereby the government is to pay its way. Aside from these committees consisting of all members of the House, there are two "select" committees concerned with budgetary matters: the Public Accounts Committee and the Estimates Committee, each consisting of fifteen members. We shall note the work of the Public Accounts Committee in Chapter IX. The Estimates Committee was established in 1912 to act as an advisory body to the House in the examination and criticism of the estimates, particularly with a view to bringing about economies. Both Young and Hills agree, however, that it "has proved of little use as an instrument of economy."

In France, the budget and all financial measures are referred to a finance committee (*commission des finances*) in each house. The Finance Committee in the Chamber of Deputies, spoken of before 1920 as the Budget Committee, is composed of forty-four members chosen from the various party groups in the Chamber by the scheme of proportional representation. The Senate Finance Committee consists of thirty-six members chosen in the same manner. Each committee is therefore a microcosm of the chamber which it represents. It is headed by a *rapporteur général*, who has complete supervision over its

work, usually conducted through subcommittees, and the presentation of its findings to the Chamber. The *rapporteur général* is often more influential with the members of his chamber than either the Minister of Finance or the Minister of the Budget. Each committee labors independently of the other and exercises the full budgetary authority of its chamber. Middleton thinks that the Finance Committee of the Chamber exerts more real power at times than either the Ministry or the Chamber. There are occasions, Allix states, when this Committee really makes the budget.

The legislative bodies of most of the parliamentary governments of Europe have committee systems which resemble the French type. There is a rather close parallel in the case of Belgium, and likewise in each of the Scandinavian states. The German committee system also follows the same general lines; and so does that of Japan. The budgetary committees, however, are limited in each of these countries by the financial powers reposed in the legislative bodies or chambers which they represent.

Prior to the adoption of the national budget system in the United States, each house of Congress had no less than eight separate committees which handled appropriation bills. These committees not only functioned independently of each other, even in the same house, but they had no responsibility for seeing that the proposed appropriations were kept in balance with the anticipated income of the government. The revenue bills were handled by still another group of committees.

But in 1920 a House resolution was adopted which created a single Committee on Appropriations to have complete control over all appropriation bills in that body. This resolution, regarded as a necessary adjunct to the budget and accounting act, was adopted more than a year before that act became effective, owing to the fact that President Wilson vetoed the act in 1920 and thus delayed it until repassed by Congress the following year. The House Committee on Appropriations, as it stands today, is composed of thirty-six members and functions through

eleven subcommittees, six consisting of five members each, four of six members each, and one of ten members. The majority party in the House has the largest number of members on both the Committee and the subcommittees, and the chairman and subchairmen are in every case representatives of this party. The subcommittees are organized according to the general scheme of the ten major appropriation bills, with an added subcommittee on permanent appropriations.

The Senate rules were modified in 1922 to provide for a single Committee on Appropriations to have control over all appropriation bills in the upper chamber. This Committee now consists of twenty-three members, and is divided into ten subcommittees, similar to those of the House, omitting the one on permanent appropriations. Each subcommittee has nine members, the chairman and most of the members being selected, as in the House, from the majority party. The major appropriation bills as they come from the House are assigned to these subcommittees. When considering certain of these bills the Senate subcommittees may have the advice of three members selected from the corresponding general committees, thus correlating to some degree the committee work on general legislation with that on appropriations. At present six subcommittees have the assistance of members from other committees.

To handle the revenue bills which go through Congress there are two committees, a House Committee on Ways and Means consisting of twenty-five members, and a Senate Committee on Finance composed of twenty members. These committees work independently of each other in considering the income side of the budget. But the chairmen of the House Committee on Ways and Means and Committee on Appropriations keep in touch in order to ascertain what action is being taken by each other's committee and to bring the revenue and expenditure proposals into balance so far as possible.

A single committee in each house of Congress to handle the appropriation and revenue bills has been proposed on the assumption that this arrangement would greatly aid in maintain-

ing the unity of the budget. Willoughby (*Principles of Public Administration*, p. 472), however, argues in favor of retaining the existing arrangement of separate committees. He thinks that the combined task would be too large and the concentration of power and responsibility too great for a single committee. He asserts, without stating his reasons, that appropriation measures are nonpolitical in character, while revenue measures are usually intensely political; and upon this ground, too, he believes it would be undesirable to combine the handling of these bills in one committee. Neither does he think that any plan for joint action between the committees in the two houses of Congress would be feasible, at least so long as we cling to the historic right of the lower house to originate financial measures and continue to believe in the efficacy of the bicameral system.

Besides the four committees just discussed, Congress has three other committees which are concerned with financial matters. There are two committees on expenditures in the executive departments, a Senate committee consisting of seven members and a House committee of twenty-one members. In the House, there is also a Committee on Accounts composed of eleven members. We shall refer to these committees again in Chapter IX.

The American state legislatures, generally speaking, have about the same committee arrangement as Congress for handling budgetary measures. A few state legislatures, however, have either constituted joint committees or provided that corresponding committees work jointly, thus insuring some coordination between the committees of the two houses and at the same time dispensing, in a measure, with the use of conference committees. Even where this joint relationship exists, the budget is split up in practically every instance, the expenditure side being dealt with by one joint committee and the income side by another. Such arrangement, even under two joint committees, tends to break down the unity of the budget. While a single joint committee would be an improvement, still all the

difficulties inherent in the bicameral system would not be avoided.

SUBMISSION OF THE BUDGET TO THE LEGISLATURE

The submission of the budget to the legislature may be a mere incident in a day's work, passing almost unnoticed, or it may be the most important occasion of the legislative session. American practice, with occasional exceptions, tends to make it a purely routine matter. The executive's budget message which usually prefaces the budget is read, if at all, by some legislative clerk, whose monotonous voice fails completely to stir his auditors. There is nothing about this performance to arouse the interest of legislators, much less of the public. It is practically devoid of any news value.

It is possible, on the other hand, to make the placing of the budget before the legislature "the most important scene in the drama of government." England has been doing this since the days of Pitt, who first succeeded in making the "budget speech" the "political high-water mark" of the parliamentary session. Next, Gladstone contributed to the historical importance of this occasion by "opening the budget" thirteen different times with such great ability and charm that one of his admirers referred to his speeches as "setting figures to music." According to Lord Buxton, it was his celebrated budget speech of 1853, lasting five hours, that raised Gladstone "at once to the front ranks of financiers as of orators." Today, when the time for the budget speech arrives, "public excitement grows," says Hills, "and the benches of the Chamber are usually packed." The Speaker leaves the chair and the House goes into the Committee of Ways and Means, whereupon the chairman calls on the Chancellor of the Exchequer, "and it is in rapt silence that he starts on the long business of opening his budget." His speech usually begins about 3:30 in the afternoon, since it has become customary for him "to delay his announcement of remission or imposition of taxation until after the Stock Exchange has closed" for the day. "The Chancellor

starts his speech," says Hills (*The Finance of Government*, rev. ed., p. 48), "with a review of the finance of the year which has just closed, and gives the final balancing of that account. . . . That matter cleared out of the way, he turns to an examination of the state of the national debt, with a general disquisition upon the condition of the country's finance, trade and prosperity. Next comes a forecast of revenue for the current year on the existing basis of taxation, and a comparison of it with expenditure, including any new expenditure, such as repayment of debt or fresh services, which the government may contemplate. If he anticipates a surplus in the coming year, he can use it to pay off debt, or to reduce taxation, or spend it on new services. If he anticipates a deficit, he must impose new taxes, or increase old ones, or borrow. Then—and this is where excitement quickens—he gives the details of such imposition, alteration or remission of taxation as circumstances may dictate or allow, and concludes with the final balance sheet." During this speech, which generally occupies from two to three hours, and in the discussion which follows it, any member of the House of Commons may interrogate the Chancellor. At the end of the speech some members of the opposition usually reply to the Chancellor, often criticizing his budgetary proposals and stating their own views. All in all, this procedure affords the most perfect staging for the budget which any government has so far devised. It is imitated by the British dominions and by several other parliamentary governments, including that of Japan, but often with less dramatic effect.

Congressional governments might provide for a similar procedure merely by giving the executive, his finance officer, and other chief officers seats in the legislature with the right to speak but not to vote. The executive, or his finance officer, could then make a budget speech before the legislature and thereafter appear upon the floor to answer questions or criticisms directed at the budgetary proposals. In the United States, attempts have been made through constitutional amendments in certain states, notably Maryland and New York, to

bring the governor before the legislature to defend his budgetary proposals, but without success, due mainly to the failure of the legislature to provide the necessary procedure. Within recent years the governors of Illinois and Ohio have, on their own initiative addressed joint sessions of the legislatures in those states on their budgetary proposals. But the existing legislative procedure makes this method rather ineffective, so that it does not promise to become a general practice.

If the United States Congress would discard the outworn traditions and prerogatives of its committees and adopt a procedure which would bring the executive before it on budgetary matters, as we have already explained in Chapter IV, the effectiveness of the present budget system would undoubtedly be greatly enhanced. Much of the work of the congressional committees on the budget, now being done in camera, would then be brought out in the open; the President and his chief administrative officers would be put on their mettle before Congress; and the public would know more about what is going on in the planning and administration of national finances.

LEGISLATIVE CONSIDERATION OF THE BUDGET

In parliamentary and congressional governments the consideration of the budget is usually the main task of each regular session of the legislature. This task is generally performed to a large extent by standing committees, except in Great Britain, where a committee of the whole is employed. In bicameral legislative bodies, when the two houses enjoy anything like equal budgetary powers, the lower house, as we have already seen, is usually given precedence over the upper house in handling the budget and the budget bills. This is true in France, Belgium, the Scandinavian countries, and Japan. But in Switzerland the two houses consider the budget at the same time. In the United States, the constitution provides that "All bills for raising revenue shall originate in the House of Representatives; but the Senate may propose or concur with amendments as on other bills." This provision, referring only to

revenue bills, has been interpreted from the beginning as applicable also to appropriation bills. The Senate, therefore, does not as a body consider the budget bills, either as to revenue or appropriation, until after the House has acted on them. The majority of the state legislatures follow a similar procedure.

Committee Action on the Budget

We have already noted the organization of the standing committees which take action on the budget. If we compare the work of the parliamentary committees of France with that of the congressional committees of the United States, we find marked similarities both in procedure and in results. Incidentally, the French scheme has the advantage over the American in that a single committee in each house considers both sides of the budget and therefore can readily give attention to budgetary equilibrium in its deliberations and recommendations. This is a difficult matter for the four separate committees of the American Congress. The committees of the lower houses in both France and the United States are the first to work on the budget and to report their findings to their respective houses. Usually the committees of the upper house do not settle down to serious work on the budget until they have received the budgetary proposals as voted by the lower houses. The committees of both governments have investigating and clerical staffs, the French staffs being perhaps more elaborate. The powers of the committees to modify the executive recommendations contained in the budget are quite extensive in both France and the United States; indeed, on some occasions their full use has resulted in the complete recasting of the budget.

The following are the more important details of committee procedure on the budget in the United States Congress. The President's budget, upon being submitted to the House, is referred immediately by the speaker to the Committee on Appropriations. If it happens to contain any revenue proposals, they are referred to the Committee on Ways and Means. The chairman of the Committee on Appropriations at once parcels

out the expenditure proposals of the budget to the subcommittees, already noted, each of which is responsible for drafting a major appropriation bill along the general lines determined by the whole committee. The subcommittees start work on the departmental estimates assigned to them by holding "hearings" at which the departmental officers are required to give testimony regarding their expenditure needs as set forth in the estimates. This testimony is reported stenographically and printed for the use of the Committee when the appropriation bills are before the House. Sometimes these hearings are started as much as a month before the budget is submitted to Congress; indeed, it often happens that some of the appropriation bills are almost ready for consideration by the House when the budget is received. This procedure is possible because the departmental estimates are transmitted to the Committee as soon as they are scrutinized and revised by the Bureau of the Budget, which may be from three to six weeks before the budget is completed. In this respect the procedure resembles that of Great Britain, where the departmental estimates are submitted to Parliament several weeks before the budget is "opened" by the Chancellor of the Exchequer. As the appropriation bills are reported out by the Committee and passed by the House, they are sent to the Senate. Here they are referred to the Committee on Appropriations, and again parceled out by the chairman to subcommittees. When these bills have been examined and revised by the subcommittees, they are reviewed by the whole committee and reported to the Senate for action. The revenue measures are handled in a similar manner by the House Committee on Ways and Means and by the Senate Committee on Finance, each working as a unit.

In the majority of the American states, the legislatures handle the budget in practically the same manner as does Congress. As already noted, a few state legislatures provide for joint committees between the houses, or separate committees acting jointly; in this way they obviate duplication of committee work

and hasten legislative consideration of the budget bills through identical reports to each house.

Certain shortcomings are apparent in the workings of the American standing committee system as applied to the budget. This system fosters "logrolling" behind the closed doors of the committee room, promotes "gag rule" on the legislative floor, discourages legislative discussion and thereby reduces publicity to a minimum, stifles rather than develops the "opposition" in the legislative body, and compels the voting of a whole bill at once instead of by its important sections. As a remedy for these ills, the use of committee of the whole has been suggested by certain publicists, but rather as a supplement to the standing committee system than as a substitute for it. This suggestion is based on the English experience with committee of the whole, which we shall now examine briefly.

The British House of Commons handles the budget, as we have already noted, through the Committee of Ways and Means and the Committee of Supply, both of which consist of the entire membership of the House, numbering more than six hundred. In criticizing the tax proposals of the Cabinet and in rejecting or reducing them, the Committee of Ways and Means, says Muir (*How Britain Is Governed*, p. 225), "is a suitable body for the purpose: it is a committee of the whole House, but the whole House is interested in the taxes that have to be paid by the whole community, and therefore the discussions are real discussions." But as much cannot be said for the action of the whole House when it switches to Committee of Supply. It is then hampered by the "outworn rules of procedure in Supply," by the political character of financial criticism, and by the lack of information for parliamentary debate on expenditures. Davenport remarks (*Parliament and the Taxpayer*, p. 116) that "the House of Commons pursues national economy with the same rules of procedure it used when disputing with Kings." He goes on to say (p. 127) that the rules of today are those originated in the seventeenth and early eighteenth centuries. "It was in those days considered the first duty of all

patriotic Parliament men to delay, postpone, or obstruct the royal demands for money, and their rules of procedure were ingeniously devised with that end in view. Yet time is still wasted at Westminster today by conforming to these ancient rules, albeit there is no such distrust, financially, of the executive power, but, on the contrary, an advantage in dealing expeditiously with the increasing volume of Government financial business." In the development of the party system, parliamentary debates on the budget became less financial and more political until, as Davenport puts it (p. 133), financial criticism almost disappeared. Today, when the opposition chooses the supply proposals for discussion, which it has the privilege of doing, it "selects the subject which is the most likely to combine an attack on the Government." Hence these proposals are debated from the viewpoint of politics rather than finance, and an adverse vote in Committee of Supply is equivalent to a vote of want of confidence. The Select Committee on National Expenditure of 1917-18 maintained that the Committee on Supply was without adequate information as a basis for criticizing the expenditure estimates. A proposal was therefore made for the establishment of two or three standing committees on estimates, composed of fifteen members each, which could be provided with expert assistance in studying the expenditure estimates. These committees would "report to the House when it went into Committee on Supply on any block of estimates which they had been able to examine," and would "make any suggestions as to possible reductions of expenditure which seemed to them desirable." Indeed, one Estimates Committee had already been set up at that time, but it proved ineffective because the task was too large for it without staff assistance. So far, nothing has been done by Parliament to meet this situation, and Muir suggests (p. 230) as the reason "that the Cabinet is exceedingly jealous of any invasion of 'Cabinet responsibility'—even when the Cabinet itself has no time to deal with the problems that need consideration, and would be quite unable to tackle them if it had. . . . And behind the Cabinet is

the bureaucracy of the departments, hating the idea of any meddlesome interference by Parliament, and, probably, thanking its stars that the estimates are presented in such a form as to make such interference impracticable."

In spite of its apparent defects under the British system, most of which are due to antiquated legislative procedure, committee of the whole has several virtues. If applied in the national and state legislatures of the United States, it would go a long way toward remedying the worst ills of the standing committee system. It would permit open discussion on the legislative floor, allowing dissenting members of the majority party to express themselves without incurring the charge of party treason, and it would encourage criticism by the "opposition" members. With the executive and his chief officers present on the floor, committee of the whole would enable the legislators to question them freely on the budget and to hear their rebuttals to the findings and reports of the standing committees. As a matter of fact, it is now customary for the lower house of Congress upon receiving the appropriation bills from its standing committee to go into committee of the whole for consideration of these bills. But this is mainly for the purpose of discussing and taking action on the recommendations of the committee. Occasionally a state legislature will employ committee of the whole in much the same way as the House of Representatives. As yet, however, committee of the whole is undeveloped as a regular procedure for handling the budget in the state governments. Although it is apparently required by the budget amendments of both Maryland and New York, the legislature in each instance has either neglected or refused to provide for such procedure.

Discussion of the Budget by the Legislature

It is interesting to compare the legislative discussion of the budget in England with that in France and in the United States. Twenty days are allowed under the British system for discussion of the expenditure estimates by the Committee of Supply.

These are scattered through the parliamentary session, usually on successive Thursdays, from February until the early part of August. If the Cabinet thinks it necessary, it may allot an additional three days to the discussion. The reason for limiting the period of discussion is to prevent the opposition from consuming the entire session on matters of supply, thus preventing the government from putting through its legislative program. The opposition, through the party whips, generally chooses the votes which will be discussed. After a preliminary debate on "grievances"—now a meaningless ritual, since Parliament holds the remedy for grievances in its own hands—the Committee of Supply proceeds to discuss the estimates with a view to adopting resolutions which can be reported back to the House as a basis for the appropriations. "For eighteen days the House may discuss away," says Young (p. 62), "but the nineteenth is a day of judgment. On that day all outstanding votes have to be passed in Committee. On the twentieth day all remaining Report stages have to be worked off. However little progress has been made in the eighteen days, on the nineteenth the matter must be brought to a conclusion. . . . Under modern conditions small progress is commonly made with the detailed consideration of the estimates before the axe falls on the last day but one of the allotted days. Between a third and a half of the total expenditure for the year is often voted then in an hour or so, without any sort or kind of debate or criticism. A more unsatisfactory state of affairs could hardly be imagined. It reduces the whole laborious process of the control of expenditure by the House to something of a farce." But it is necessary to apply the "guillotine," as the closure is called, at the end of a reasonable period; otherwise the debate on the estimates would go on indefinitely. Nevertheless, the more important votes, from a political viewpoint at least, are usually discussed; and that is a distinct gain as compared with the fruits of legislative discussion in the United States.

In the French Parliament, political attacks by the opposition parties or groups are usually launched against the budget, since

it is the most vulnerable spot in the program of those controlling the government. The budgetary discussion in the Chamber of Deputies often occupies three months or more of an ordinary parliamentary session of five months, and is sometimes the only serious work accomplished. It is not unusual for budgetary debates to become so heated and politically involved as to lead to the downfall of the Ministry; indeed, such was the case in January, in October, and again in November of 1933. The Finance Committee of the Chamber has complete control of the budget while it is before that body. It may defend the budgetary proposals of the Ministry, or introduce serious modifications in them, or prepare "ingenious pitfalls which it will be hard to avoid in public debate." Middleton says that this Committee, "while performing with diligence its function of technical criticism, is far from disdaining to use its political power. Its action in certain exceptional and critical periods shows the committee system at its best and at its worst." When the Committee has finished its examination of the estimates, which are usually received from the executive some time before the opening of the parliamentary session, the *rapporteur général* takes the budget bill, as amended or recast by the Committee, before the Chamber and is responsible for steering it through that body. As the sections of the bill are taken up in the debate, he sees that all questions are properly answered. While the Minister of Finance and the Minister of the Budget usually take prominent parts in the debate, they play only secondary rôles. The presiding officer endeavors to keep the discussion within proper bounds, but often without success, since any deputy may take this occasion to air his personal grievances or to deliver a long disquisition on the conduct of the government. In order to expedite the debate, it has been ruled that the ministers may not be interpellated on questions arising in this connection. When the debate is finished in the Chamber, the budget bill, already passed section by section, is voted in its entirety. It is then sent to the Senate. Although a similar procedure is followed by this body, the bill usually progresses

more rapidly toward passage. It may be amended by the Senate within certain limits which have already been discussed. The task of reaching an agreement between the Senate and the Chamber over an amended budget bill is not as a rule an easy matter, since the French do not resort to the conference committee—a device commonly used in America, which is described below.

As compared with the parliaments of France and England, the Congress of the United States does not give very much time to the discussion of the revenue and appropriation bills. In fact, the appropriation bills are usually handled in a routine manner and passed without satisfactory debate. As these bills come from the House Committee on Appropriations, they are first considered in committee of the whole. A motion may be made at almost any time to go into committee of the whole for the consideration of one or more appropriation bills, which are highly privileged on account of the necessity of their passage by Congress before adjournment or prior to the opening of the fiscal year. Each bill is steered through the House by a member of the Committee on Appropriations, usually the chairman of the subcommittee directly in charge of the bill. When the motion is made to go into committee of the whole on an appropriation bill, an agreement is reached on the length of the so-called general debate on the bill, a matter which is in the hands of the chairman and the ranking member of the "opposition" on the subcommittee which drafted the bill. This debate usually lasts for two or three hours and unfortunately does not have to relate to the appropriation bill under consideration; totally irrelevant matters may be, and generally are, discussed by the participating members. After the general debate is concluded, the bill is taken up section by section for discussion and amendment under what is known as the "five-minute rule." At this point, all discussion must be germane to the section of the bill under consideration. Any member of the House may move an amendment and speak for five minutes in its support; and other members may speak either for or against the proposed

amendment for a like period. During this debate, which is often little more than a grand gesture, the House is supposed to scrutinize the recommendations of the Committee on Appropriations and make known its wishes with respect to them. In reality, it usually supports these recommendations, amendments rarely being made when opposed by the committee spokesman. Following the consideration in committee of the whole, the bill is reported back to the House with any amendments that may have been adopted. These amendments are then voted on by the House; the bill is given its third reading at which no amendments are permissible, is passed, and is sent to the Senate. In the Senate, the procedure for consideration is essentially the same, except that senators may not propose amendments to an appropriation bill from the floor, as representatives may under committee of the whole. No senator can offer an amendment to an appropriation bill the effect of which is to increase the amounts already contained in the bill, or to add new items, unless it is to carry out existing provisions of law. The desirability of amendments of any other character must be passed upon by the appropriate committees on general legislation.

AUTHORIZATION AND VOTING OF THE BUDGET

Legislative action, according to American practice, is taken only on one part of the budget, that is, the budget bill or bills. The other parts, except as they are used as sources of information, are largely disregarded by the legislative body. The budgetary proposals, except in so far as they may be covered by permanent legislation, are authorized solely through the voting of the budget bills.

It is interesting in this connection to contrast English and American modes of procedure. The House of Commons, as we have already noted in the beginning of this chapter, actually authorizes the proposed expenditures of the budget vote by vote before the appropriation bill is even drawn up. But in order that the votes may be available for expenditure, there

must be a further step—the actual voting of the amounts in the appropriation bill. This is accomplished at the end of the twenty days assigned to discussion of the budget, usually during the early part of August.

In authorizing the revenue proposals of the budget, English practice again differs from American. Proposals for new taxes, or for varying the rates of existing taxes, notably those on income or on tea and other commodities, are made by the Chancellor of the Exchequer at the time he delivers his budget speech to the House of Commons. Immediately upon the conclusion of this speech, the revenue changes which he recommends are initiated by resolution of the Committee of Ways and Means and may take effect as early as the following day. The "finance act" authorizing these changes is not passed until some time later. If it should not be enacted for any reason—a rare occurrence—the amounts collected under the resolution are refunded. "It is essential," says Young (p. 80), "that the Executive should be able to collect the tea duty and any fresh duties of customs or excise or any increases in old ones as soon as it is made known that they are to be imposed. Were it not able to do so, importers and manufacturers would scramble to rush dutiable goods into the country and to clear their stocks in the interval before the new or higher duties became operative, and the revenue would suffer. Thus it would largely defeat the purpose of any change had the Executive to wait to impose the new rates and charges until all the formalities could be fulfilled which are needed to make the Finance Bill law." There is no waiting for months to effect budgetary changes in the revenue system, as is the case in the United States. The revenue proposals of the English Cabinet are not only realized at once, but also a considerable time in advance of the voting of the appropriation bill. Under American practice, the reverse is often true; the appropriation bills may be enacted and the expenditure program of the budget embarked upon long before final action is taken on the revenue proposals.

Conference Committees and the Budget

The bicameral legislative system, as we have previously noted, breeds disagreement between the two houses, especially when they enjoy anything like equal powers. In the French Parliament, the chambers often disagree in passing the budget bill. For example, on May 31, 1933, when the budget bill for the fiscal year then current was being voted, the Senate and the Chamber came to grips over amendments which the Senate had made to the bill. In conformity with French parliamentary procedure, the bill was sent back and forth between the houses in an effort to reach an agreement. It was not until the bill had thus traveled between them six times that the houses were finally in accord; and then only after an all-night session had worn down the contending parties, the clocks of the two chambers having been stopped at midnight to preserve the fiction that it was still May 31.

When a similar situation arises over the budget bills in the United States, a device known as the conference committee is often employed. This is a short-cut method to agreement, as compared with the French procedure,—a method used by certain other governments, notably Japan and Switzerland. In the case of an appropriation bill, for example, the conference committee is called into play in the United States Congress when the Senate amends such a bill and the House refuses to concur in the amendment. It then becomes necessary to appoint a conference committee to settle or adjust the points at issue. The conferees from each house are chosen from the members of the subcommittees which had charge of the bill, and are appointed by the presiding officers. According to the rules, nothing in the bill may be changed by the conferees, except where there is a point of disagreement between the two houses, and no new matter may be added. Where the amounts allowed for the same object by the houses are different, the conferees may agree upon a figure which is between the two amounts but not greater than the larger nor smaller than the lesser. Although the con-

ferrees may find that they can improve the bill, they are forbidden to insert any matter which is not committed to them by one or the other of the houses. If they do so, a point of order can be raised against the conference report when it is submitted. When a conference report is rejected by either house, more conferences are held until an agreement is finally reached which is acceptable to both houses. When all differences have been adjusted, the bill is enrolled, signed by the two presiding officers, and sent to the President for his signature.

The conference committee, although a means of expediting legislative business under the bicameral system, has certain serious disadvantages, at least as practiced in America. It is inclined to be autocratic in the exercise of its powers, sometimes making changes in a bill which its authority does not warrant. It customarily meets behind closed doors to do its work, and no record is kept of its acts. When it has reported to the two houses, they must either accept its proposals without amendment or reject them *in toto*. If the proposals are rejected, another conference committee is appointed and the same procedure repeated. As between the Senate and the House of Representatives, the former usually has a marked advantage over the latter, due to the fact that its members are more experienced in legislative matters. The House, therefore, is likely to make most of the concessions. In the American state legislatures, the conference committee is not only a source of arbitrary authority in passing legislation, but it is sometimes used by political leaders as an instrument for the easy exercise of machine control.

Restrictions on Legislative Action

We have already discussed in Chapters III and IV the general aspects of restrictions on legislative action in the authorization of the budget. We have noted the self-imposed limitations of the English House of Commons, which permit it to reduce or eliminate, but not to increase, the expenditure proposals of the executive. Even so, the Cabinet may decline to accept the

revisions. In that event, it may ask the majority of the House to support its proposals as a matter of confidence, or it may threaten to dissolve the House. With dissolution—a veritable sword of Damocles—always hanging over its head, the House seldom makes any changes in the budgetary program of the Cabinet.

The Japanese system places serious restrictions on the action of the Diet with regard to the budget. According to existing practice, only about a quarter of the total budget requires the approval of this body. While the Diet is not legally limited in its action on this part of the budget, it has, as a matter of practice, refrained from increasing the proposals of the executive since the establishment of the parliamentary system; so that it now exercises, in effect, only a limited authority to reduce the executive's proposals.

A few American states, Maryland and New York in particular, have imposed restrictions on the action of the legislature with respect to the governor's expenditure proposals. The legislature may only strike out or reduce the expenditure items in the governor's budget, except the items for its own support which it is free to change, and those for the judiciary which it may increase. In New York the legislature may add separate items to the expenditure proposals of the executive, which are subject to veto by the governor. This modified limitation on legislative action presupposes the continuation of detailed appropriations, which are, however, undesirable from the standpoint of budgetary execution. The practical effects of these restrictions on legislative action have already been noted in Chapter III. Incidentally, similar restrictions have been embodied in the budgetary laws of two Latin American countries, Chile and Colombia.

The unlimited introduction of appropriation bills by members of the legislature has jeopardized the budgetary program in so many American states that steps have been taken to curb this practice. It has been found that when state legislators have the power thus to initiate proposed expenditures outside

the budget, they lose interest in the governor's financial plan and become the representatives, not of all the citizens, but of those individuals and groups which are organized to demand special appropriations. For this reason constitutional restrictions on special appropriation bills have been adopted by several states, including California, Maryland, Massachusetts, and New York. These restrictions take various forms, such as forbidding the consideration of special appropriation bills by the legislature until it has disposed of the governor's budgetary proposals; or requiring these bills to be for a single work or purpose, to provide the means of financing the appropriations contained in them, to pass the legislature by more than a majority vote, and to be subject to veto by the governor. Such restrictions, though severely criticized in many quarters, have undoubtedly had a salutary effect in preventing legislative disregard of the budgetary program. This is not saying, however, that the same result might not be accomplished through simple changes in the rules of legislative procedure, assuming the rigid enforcement of such rules. By such changes, Congress has succeeded in improving somewhat the handling of special appropriation bills. It has at least related these bills to the budget, if not actually reduced their numbers. All such bills must now go to the Committee on Appropriations in each house; they cannot be considered by the other standing committees, which are even forbidden to insert clauses providing for specific appropriations in any of the general bills. Thus responsibility for recommending all expenditures to Congress is centered in the two committees on appropriations.

A final restriction on legislative action with respect to the budget, particularly in the national and state governments of the United States, is the executive veto, requiring more than a majority, usually a two-thirds, vote of the legislature to override it. Although of a purely negative character, it is often an important factor in the enactment of the budget bills, since it may be, and frequently is, used to whip recalcitrant legislators into line with the executive program. While the President can

veto appropriation bills only in their entirety, the governors of some of the states are allowed to strike out, or even reduce, items in such bills. But the legislature may defeat the executive's power to strike out items simply by lumping rather than itemizing the appropriations. The only effective veto, therefore, is one that permits the executive to reduce as well as eliminate items. Even this type has its disadvantages, as we have pointed out in Chapter III.

A few American states have recently experimented with the transfer of the veto power, in part, from the executive to the legislature, after the British system. The English Parliament, according to Hawtrey (*The Exchequer*, p. 17), can apply a general veto to the budgetary proposals and thus force the resignation of the Cabinet, or it can apply a detailed veto to the departmental estimates simply by reducing the votes. Since the general veto is a parliamentary device, it is not strictly applicable to congressional government; however, the detailed veto can be so applied. An adaptation of the latter is now practiced, for example, in Maryland and New York. While the executive veto is still retained in these states with respect to general legislation, it is applied, so far as the appropriations are concerned, only to the special appropriation bills which are outside the governor's budget.

Publicity Concerning the Budget as Adopted

After the budget bills have been enacted by the legislature, a statement should be prepared and issued setting forth in general terms the effect upon the executive's budget of any changes which the legislature may have made. This statement is particularly needed in those governments where the legislature is not limited in its action to the proposals contained in the budget. Either the executive or the legislative committee, or committees, handling the budget should prepare the statement, which should be presented in the general form of the balanced budget summary with supporting schedules and explanatory notes on all important legislative revisions.

Since the adoption of the national budget system in the United States, it has been the practice for the congressional committees on appropriations to issue a statement through their chairmen at the end of each regular session, setting forth a summary of the appropriations made by Congress as compared with the expenditure proposals contained in the President's budget. This statement is published in the *Congressional Record* and is usually accompanied by considerable explanatory text, frequently of a highly political character. Sometimes the floor leader of the minority party in the House is moved to make a rejoinder. Only the expenditure side of the budget is discussed in this manner; there is no attempt to contrast it with the revenue side and thus present the congressional views on both. After Congress has adjourned, and usually before the opening of the fiscal year, the Treasury Department prepares a so-called "Digest of Appropriations" for that year. But this digest is not generally available to the public, and if it were, its voluminous size and lack of proper summaries would render it of little value. Very few attempts have been made among the state governments to supply such a statement. Perhaps the most notable was the "Report to the People of the State on Its Financial Condition," which was published by Governor Smith of New York during his term of office. This statement showed the appropriations made by the legislature for the forthcoming fiscal year and the estimated income to meet them, explaining both in simple terms which could be readily understood by the citizens of the state.

VOTING THE BUDGET AFTER THE FISCAL YEAR BEGINS

It has been the general practice in the United States to arrange the fiscal year with reference to the legislative session so that all budget bills can be passed prior to the opening of that year. There are, however, some exceptions among the state and local governments. By deferring the passage of the budget bills until after the beginning of the fiscal year, it is claimed that complete information on the financial operations

of the preceding year is available to the legislative body, which is true. But this advantage may be more than offset by the fact that the government is required to operate for a period without reference to the proposed budget.

Three methods are used in meeting the operating expenditures of the government in the interim between the beginning of the fiscal year and the time of enacting the appropriations, *viz.*: to defer the payment of all claims pending the passage of the appropriations; to continue to spend at the rate authorized for the previous fiscal year; and to authorize temporary appropriations for the intervening period. The first method operates by default; it compels the government to run on credit until the appropriations are made. In so doing, it permits obligations to be incurred without reference either to the proposed budget or to that of the previous fiscal year. The second method bases the current expenditures for the intervening period upon the preceding year's appropriations and, to some extent, upon the rate of expenditure during that year. By such means it practically ignores the proposed budget. The third method, which is the most satisfactory, provides temporary authorizations based upon the proposed budget. Hence these authorizations are part of the plan of expenditure which is to be authorized in its entirety at a later date. The main drawback to this method, as practiced in some American state and local governments, is the failure to make the interim authorizations promptly at the beginning of the fiscal year.

The third method is generally followed by the European governments which defer the voting of the budget, either through practice or because of unusual circumstances, until after the opening of the fiscal year. Denmark, however, is an exception. On rare occasions it may happen that the Danish finance act has not been passed before April 1, which is the beginning of the fiscal year. In that event, a "temporary bill of appropriations" is passed. This bill, according to the constitution, does not grant authority to meet operating expenditures beyond those authorized for the preceding fiscal year. With regard to

projects outside the routine administration, only such expenditures can be made as are indispensable for works under construction.

Since the English Parliament does not pass the appropriation bill until the early part of August, some provision must be made for expenditures by the government during the four months or more following April 1. This is done through the "votes on account." During March the Financial Secretary to the Treasury prepares an estimate of the amounts needed to carry on the civil services for the intervening period. This estimate is authorized by a resolution of the Committee of Supply passed before March 31. "The preparation of this estimate," says Young, "is governed by a rule that a vote on account must be restricted to such services as have already received the sanction of Parliament. In this hasty business of making temporary provision for the beginning of the coming year, the House must not be called upon to give its assent to anything new." The votes on account of the army, the navy, and the air force are treated somewhat differently, a matter we need not consider here. These votes are likewise authorized by resolutions of the Supply Committee. When the "supply resolutions," as they are called, are reported to the House, the Committee of Ways and Means meets and authorizes the issue from the consolidated fund of the amounts so granted. These amounts are then included in the "consolidated fund bill" and passed by the House. This bill is not regarded as an appropriation act, since the amounts contained in it are later covered by the grants of the regular appropriation act.

The "provisional twelfths" (*douzièmes provisoires*) regularly employed in Belgium and frequently in France are expenditure authorizations by months, similar in some respects to the votes on account. Stourm is quite critical of this device, since he regards it as being "wholly the result of parliamentary disorder." Allix says that in France the *douzièmes provisoires* become necessary on account of the political crises which often interrupt parliamentary discussion of the budget, and that this

situation is aggravated by defective and outworn legislative methods and by the dilatory tactics of the government. When the fiscal year was recently changed from January 1 to April 1, it was believed that the provisional twelfths would no longer be required. But this did not prove to be the case. In 1933, for example, Parliament delayed the passage of the budget bill until June 1.

REFUSAL OR FAILURE TO VOTE THE BUDGET

When a government is financed on an annual basis, as is notably the case with France, refusal or failure on the part of the legislature to vote the budget bill, or bills, is a serious matter. According to Stourm, "if the year were to open without the budget having been voted, the bondholders could not get their interest; nor the pensioners their pensions; the tradesmen would beat in vain at the gates of the Treasury; the officials would work without salaries; the schools would be closed; the army would be deprived of its pay, of its livelihood, of its equipment, of its provisions. All the functionaries of the state, that is to say practically everybody, would find themselves affected; the activities of the country would be paralyzed." In short, taxes would remain unlevied for the support of the government and appropriations unauthorized for its operating expenditures.

The constant danger of legislative deadlocks has caused Japan, certain of the post-war governments of Europe, some of the Latin American governments, and a few states and territories of the United States to provide a means of carrying on governmental work in the event the budget is not authorized. A provision in the Japanese constitution continues the budget of the preceding year, whenever the Diet fails for any reason to authorize the proposed budget. Among the European governments, the constitution of Poland has gone a step further by requiring that the President make the proposed budget effective by decree, in case Parliament has not voted it by the opening of the fiscal year. A provision in the budget law of Chile makes

the proposed budget automatically effective on the first day of the fiscal year, if the legislature has not already voted it. In the United States, the budget law of Rhode Island provides for executive authorization of the budget whenever the legislature fails to act by a specified time, while the financial laws of Kentucky, Porto Rico, and the Philippines extend the previous year's appropriations in case of such contingency.

SUPPLEMENTARY, ADDITIONAL, OR DEFICIENCY APPROPRIATIONS

Supplementary, additional, or deficiency appropriations are found in one form or another in practically every government. In England, they are usually known as "supplementary estimates"; in France, as *crédits additionnels*; and in the United States, as "deficiency appropriations." Young refers to the supplementary estimates as "a necessary evil" in English budgetary practice. "By their means," he says, "provision is made for the chief additions to expenditure which are found to be unavoidable." The supplementary estimates go through the same procedure as the original estimates, and by inclusion in the next appropriation act are grafted on to the general scheme of appropriation. They must have the approval of the Treasury, which makes investigations to determine if the excess expenditure is really urgent before giving its assent, and "whether in particular by hook or by crook the expenditure cannot without detriment to the public service be postponed to the coming year, so that it may be included in that year's ordinary estimates." Even when the Treasury finds that supplementary estimates are necessary, it is often able to provide for them from revenues assigned to "appropriations in aid" which are in excess of those originally estimated. While this requires the consent of Parliament, it does not disturb the budgetary balance. On the whole, the supplementary estimates are rigidly controlled by the Treasury and therefore are not susceptible to the same abuses as the deficiency appropriations in the national government of the United States. But despite this, Young says

that "they are always harmful," that "they are a diseased excrescence on the year's finance, and the success in finance of the Ministry may be measured by their ability to do without them." Hence every effort is made to get along without resort to supplementary estimates. In fact, they are not used in great emergencies, such as impending war. A special procedure is then employed, which supplants for the time being the ordinary budgetary process. This is a "vote of credit" by Parliament. It is deemed to be the least dangerous way of departing from the budget, since it denotes that the proceeding is irregular and exceptional.

For nearly a century the French have been seeking some satisfactory method of curbing *crédits additionnels*. Stourm indicates that their efforts have not been very successful, although the procedure by which additional appropriations are granted has been somewhat systematized. Allix severely criticizes the use of such appropriations; he claims that they upset budgetary equilibrium and encourage extravagance. There is no point, he thinks, to voting a balanced budget if the expenditure side of it is to be swelled during the fiscal year by additional appropriations. He feels that by this means the administrative officers often secure grants from Parliament which they could not obtain through the regular budget. This state of affairs he attributes to the relaxation of parliamentary scrutiny when not confronted by the immediate necessity of balancing the budget. Nevertheless, Parliament affords practically the only check on additional appropriations, since the executive does not seem to concern itself very much with such matters. In fact, the Minister of the Budget rather aids and abets the other ministers in securing these appropriations from Parliament.

Long before the adoption of the national budget system, deficiency appropriations had become a flagrant fiscal abuse in the United States. In 1906 Congress undertook to cope with this abuse by the passage of the so-called "anti-deficiency act." This fact forbade the departments and establishments of the national government to incur obligations not expressly author-

ized by law, and required them to control the rate of their expenditure during the fiscal year so as to avoid deficiencies at the end. But the act was never enforced. The budget and accounting act of 1921 also failed to meet the situation, so deficiency appropriations are still a problem. The departments and establishments find ways of incurring expenditure obligations which later necessitate their asking Congress for such appropriations. As a rule Congress cannot, or does not, refuse to grant them, regardless of the effect they may have on the budgetary balance. At times this practice reaches a dangerous point. During the fiscal year 1930-31, for example, the aggregate deficiency appropriations reached 10 per cent of the total national budget for that year. It may be noted in this connection that the supplementary estimates of the English budget for 1930-31 amounted to less than 2 per cent of the total. Assuming that deficiency appropriations cannot be eliminated in the national government, budgetary control to regulate them and keep them within the proper bounds, now lacking, should be established. We shall note the nature of this control in the next chapter. Many American state governments face the same problem, even more acutely than the national government in some cases.

CORRECTIVE AND SUPPLEMENTARY BUDGETS

The term "corrective budget" is derived from European practice. It seems to have originated in France, where *le budget rectificatif* was established about 1862 and regularly employed during the latter years of the Second Empire. The corrective budget is, in fact, a second budget adopted during the fiscal year, the purpose of which is to adjust the equilibrium of the first budget, if it has been disturbed by current conditions. Thus two budgets are adopted during the same fiscal year, one at the beginning and the other near the middle of the year. Both are complete budgets from the standpoint of carrying all income and outgo; the second, or corrective, budget superseding the first, or original, budget as soon as it is author-

ized. As compared with the practice of making additional, supplementary, or deficiency appropriations, the corrective budget has the advantage of maintaining, or attempting to maintain, the budgetary balance, since it weighs the income requirements against the proposed outgo. But it has, according to Allix, certain disadvantages when regularly practiced. It leads the legislature to treat the original budget with indifference, regarding it as nothing more than a tentative or provisional plan. Furthermore, the appropriations are not finally determined, when the corrective budget is used, until a large part of the expenditures of the fiscal year have already been made or incurred. The financial plan, therefore, controls only the latter months of the year. Hence the corrective budget is considered by most authorities, particularly those of France, as a device to be avoided except under the most extraordinary circumstances.

France has ceased since 1871 to use the corrective budget in the national government, although occasionally resorting to it in the local units. Italy employed it as a regular practice after 1883, but discontinued it in 1913. Due to conditions arising out of currency inflation, Germany was compelled to resort to corrective budgets from 1920 to 1923, adopting from one to a dozen of them during a single fiscal year. Unusual economic circumstances forced the English Parliament to adopt, on behalf of the "national," or coalition Cabinet, a corrective budget in September, 1931, to bring about budgetary equilibrium. Thus far the corrective budget has not featured in American practice, although other devices less likely to maintain the budgetary balance have frequently been used.

The supplementary budget differs from the corrective budget in that it is merely an addendum to the original budget, carrying certain proposed expenditures and, at the same time, certain revenues to meet them. It does not remake the original budget, or tend to unbalance the latter. For this reason it is more commonly practiced than the corrective budget. Japan has virtually incorporated the supplementary budget in its

regular budgetary procedure. During the fiscal year 1932-33, for example, the Japanese Diet was asked by the government to vote three supplementary budgets. Due to the Manchurian affair and domestic relief measures, they carried large expenditures, which were financed mainly by public loans.

Provision has been made in the United States for the use of the supplementary budget, although it is not always referred to by this term. By the national budget law, "the President, from time to time, may transmit to Congress supplementary or deficiency estimates for such appropriations or expenditures as in his judgment (1) are necessary on account of laws enacted after the transmission of the budget, or (2) are otherwise in the public interest." He is required to accompany these estimates with the reasons why they are necessary and to explain how they came to be omitted from the budget. Whenever such estimates reach in the aggregate a point where, if they had been contained in the budget, the total income would not have been sufficient to meet them, the President is required to make recommendations for additional revenue so as to maintain the budgetary balance. This clearly provides for a supplementary budget, although the practice has not yet been established. Such budget might very well include the deficiency estimates now presented to Congress, usually without any recommendations as to how they are to be financed. Among the states, the Massachusetts budget amendment specifies the supplementary budget as the means of presenting additional estimates to the legislature after the governor's budget has been submitted. The special appropriation bills which the Maryland legislature is permitted to pass under the budget amendment are in reality supplementary budgets, since each must carry the revenue needed to finance the appropriations.

CHAPTER VIII

EXECUTION OF THE BUDGET

IN modern governments the carrying out of the budget is essentially a task for the executive, as we have shown in Chapter III. What, then, are the instrumentalities which the executive should command in order successfully to perform this task? They consist, in short, of trained and reliable personnel, modern and suitable fiscal organization, and adequate financial methods and devices.

Although we shall not discuss personnel as such in this chapter, we wish nevertheless to emphasize the fact that no system of financial administration can be successful without capable and honest individuals to operate it. As Young says (*The System of National Finance*, p. 9), "a system, however well designed, is worth just as much as is due to the integrity, ability, and loyalty of the men that work it and no more. Ultimately the true safeguard for pure and efficient administration in financial matters is the high tradition of the public service, both in the legislature and in government offices. No tightening of the screws of system could possibly compensate for a screw loose there. The public spirit of the servants of the state is the spirit that gives life to dead rules and regulations; and it is the confidence with which we have learnt to rely upon it in our own affairs that is our most valuable public asset. Men matter more than rules. . . ." And the selection of these men is even more important than the form of fiscal organization under which they work or the methods and devices which they use.

The subsequent discussion will direct attention mainly to organization, methods, and devices. It will be arranged under three main headings: the machinery and methods of financial

administration, the maintenance of budgetary equilibrium, and the technical instruments for exercising budgetary control. An attempt will be made to outline the essentials of financial management from the standpoint of successfully executing the budget.

THE MACHINERY AND METHODS OF FINANCIAL ADMINISTRATION

First of all we shall examine in detail the financial organization and methods of several of the leading governments of the world, even at the risk of repeating some of the facts from earlier chapters. It may be well, at the outset, to summarize in a comparative way the main characteristics of the fiscal systems of these governments. The English system places in the hands of the executive large and effective powers in carrying out the budget. These powers are exercised mainly through the Treasury, acting under the direction of the Chancellor of the Exchequer. The French system dissipates executive authority by magnifying the powers of the individual ministers in the execution of the budget, and by curtailing the control given to the Minister of Finance. The practice in Belgium and in several of the post-war states also tends in this direction. Germany, under the Weimar constitution, placed large powers in the hands of the Minister of Finance with regard to budgetary execution. Under the Nazi régime, the authority of this officer has been increased rather than diminished. In the absence of an executive such as we find in parliamentary and congressional governments, the financial plan of Soviet Russia is administered principally by the Commissariat for Finance under the Sovnarkom, or administrative cabinet, while political direction and control of the budget rest with the Central Committee of the Communist Party. The Japanese system places the Minister of Finance at the head of the financial administration, resting responsibility largely upon him for the execution of the budget. In the United States, the recent effort (budget and accounting act of 1921) to strengthen the authority of the

President in the execution of the budget has so far failed to measure up to expectations. The work of the Treasury Department and the Bureau of the Budget is more or less handicapped by the improper distribution of powers between the executive, on the one hand, and the General Accounting Office, on the other.

English Fiscal Organization and Methods

In England, the whole financial administration centers in the Treasury, which is the oldest and most important of the governmental departments. Its main office is in the "obscure and gloomy haunts at Treasury Chambers in Whitehall." While the Treasury is nominally controlled by a board,—the Board of Lords Commissioners of the Treasury,—it is actually under the Chancellor of the Exchequer, who is its executive head. The Chancellor is assisted, both in the office and in Parliament, by the Financial Secretary to the Treasury, whose post is regarded as the most important held by ministers outside the Cabinet. Under these two officers there is a staff of efficient civil servants, directed by the Permanent Secretary to the Treasury, who is actually the head of the whole civil service. The Treasury proper is organized under two main divisions, called "departments": Finance and Supply Services, and Establishments, each headed by a controller. The Controller of Finance and Supply Services deals with all questions relating to the budget and departmental estimates and all matters coming under the general heading of finance. The departments take up their expenditure problems with him during the financial year. He has authority, together with his chief, the Permanent Secretary, to settle all but the larger issues, which may be appealed to the Chancellor and on which the Cabinet itself may have to render a final decision. In addition to these duties he supervises the national debt, the raising and repayment of loans, banking and currency problems, and fiscal relations with the dominions and foreign countries. The Controller of Establishments deals entirely with personnel, not only of the Treas-

ury but of the whole civil service. His consent must be obtained before any department can increase its staff by even one clerk, and all rates of pay are reviewed by him.

Grouped rather loosely around the Treasury and assisting it in its sundry tasks, are several important offices. Hills (*The Finance of Government*, 2nd ed., p. 17) describes these agencies briefly, as follows: "There is the Board of Inland Revenue, under a chairman who rules over Somerset House and collects all direct taxes, and the Board of Customs and Excise, housed in Lower Thames Street, also under its chairman. Then there is the Mint, under a Deputy Master (the Chancellor of the Exchequer is titular master); the Public Trustee; the Public Works Loan Board; the National Savings Committee; and, strangely enough in such lofty company, the Stationery Office. Of more importance is the National Debt Office, in Old Jewry. It is under a Comptroller, a civil servant. The National Debt Office does not manage the national debt: that is done by the Bank of England; it buys and sells government stocks, and invests money for such government departments as possess it. Of all these offices the Chancellor of the Exchequer is political chief, and either he, or more usually the Financial Secretary to the Treasury, answers all questions concerning them in the House of Commons. The Commissioners of Woods and Forests are also responsible to the Treasury, and the Pay Office is another department under Treasury control. The titular head of the department is the Paymaster General, who is a minor minister; but he is unpaid, and has no connection with the work of the office. The Assistant Paymaster General, a civil servant, is the real head of the department, and he is under the direct supervision of the Treasury."

Despite the close watch which the Treasury keeps over the departments, laying down broad lines of economy and seeing that public money is not misapplied, "it cannot be certain that from day to day the money is being spent in the most efficient manner." The actual spending of the money is in the hands of each department, under the direct control of the "accounting

officer," who is usually the permanent secretary of the department, a civil servant, and the real departmental head. The accounting officer of each department is named by the Prime Minister after consultation with the Permanent Secretary to the Treasury and the political chief of the department concerned. His duties do not relate to actual account keeping, as his title would seem to indicate, but solely to financial responsibility. He is accountable for all payments made by his department and must assure himself of their correctness and propriety. He also assumes responsibility for the work of his accountants and for the departmental appropriation accounts which are submitted to the House of Commons after the close of each financial year. Recently it has been the policy to have the accounting officer concern himself with questions of departmental economy. "It was with this end in view," says Hills, "that in 1920 the Treasury decided to appoint, wherever possible, the permanent head of the department as accounting officer, as no one would be in a better position to secure economy and efficiency in expenditure. His power to criticise the merits, as distinct from the regularity of payments, is of great importance. He works in close touch with the Treasury, and they regard him as a valuable instrument for securing uniformity and economy. It is through the accounting officer also that the House of Commons is able to exercise control over the departments, for he has to appear before the Public Accounts Committee, and . . . defend the action of his department before them. Their criticism, coupled with his personal responsibility, is a powerful check on the expenditure of departments."

So far we have spoken only of the Treasury and of the other executive agencies which play important parts in carrying out the budget. The Comptroller and Auditor General, who is responsible to the House of Commons, also has a part, though a very minor one. In order to make expenditures it is necessary for the Treasury to have his concurrence in transferring money from the exchequer account to the Paymaster General, whence it is expended under the supervision of the Treasury. The

authority of the Comptroller and Auditor General, however, differs somewhat as between the consolidated fund services and the supply services. He can control issues for the consolidated fund services, but he cannot check those for the supply services, although he may criticize the misapplication of money. In any case, Durell thinks (*Parliamentary Grants*, p. 166) that "his power of issue is not normally a control of discretion at all. He simply sees that the act referred to in the schedule of the proposed issue gives the power, limits the amount, and fixes the time. These three conditions being fulfilled, his discretion is at an end." This leads Durell to conclude that "the apparent financial inconsistency of uniting in the same person the dual office" of both comptroller and auditor "does not in fact possess any drawbacks or objectionable features, though *prima facie* somewhat illogical, in that the officer controlling the issues is, in a sense, the auditor of his own acts." Finally, Durell states that the Comptroller and Auditor General's duties in the capacity of a comptroller "are infinitesimal as compared with his duties as an auditor"; and Young is of the opinion that the importance of his check on exchequer issues is far less than it was, now that executive responsibility to Parliament is firmly established, and that this particular form of control is "an interesting relic of great historic controversies" without "the smallest value in enforcing economy and preventing waste."

Such are the agencies and methods through which the budget of England is executed—agencies and methods now largely copied and applied by all the British dominions. Young observes (*The System of National Finance*, p. 17) that the agencies "fall into three groups: the collectors, the spenders, and the Treasury (with its auxiliary the Exchequer and Audit Department and its subsidiary the Pay Office) which watches, advises, checks, and coördinates the whole. At the root of the system of organization a certain parallelism may be seen, not designed, but the result of a slow evolution adapting the machinery to meet its needs. It is a parallelism between executive control and specialized financial control. Parallel with the

executive departments is the financial control of the Treasury. Within each great department, again, which has financial functions to perform, whether getting or spending, parallel with the executive staff, there is the financial staff and the accountants' department. That illustrates what may be described as the first principle of good financial administration, that all executive officers who have financial duties to perform, and above all the spenders, need an independent officer to watch them whose business it is to enforce economy. It may not be obvious that it is so in theory; our system is a living witness of its great desirability in practice."

French System of Financial Administration

The financial administration of France was unified until recently, when the position of Minister of the Budget was created,—as Jèze thinks, "for reasons of political opportunism." This position was set up temporarily in 1925 and again in 1929, and established by law in 1930. Under the present arrangement, which Allix does not regard as permanent, the Minister of the Budget shares responsibility with the Minister of Finance for some of the important fiscal functions. But in practice the latter is still the real head of the financial system.

With respect to income, the Minister of Finance has charge of the collection, custody, and disbursement of all revenues, the Bank of France serving as the depository for the public funds. In the matter of expenditures, however, the authority of the Minister of Finance is more limited. Considerable responsibility rests with the other ministers, who are known in this capacity as the *ordonnateurs* (voucher-issuing officers). The Minister of Finance, according to Stourm, has three principal duties: to control disbursements with respect to the current condition of the treasury, to keep payments within the limits of legislative appropriations, and to supervise the actual payment of governmental creditors. Every month the Minister of Finance estimates the funds in the treasury which are available

for expenditure, and notifies each minister of the amount for which he may issue payment vouchers during the following month. These vouchers, with the supporting claims, are examined by an agent of the Minister of Finance assigned to each department, called a controller of incurred expenditures (*contrôleur des dépenses engagées*), who ascertains if there are appropriations available to cover them but who has nothing to say about their expediency. After the vouchers are thus attested, payments are made to the creditors.

Each minister controls the payments which are made by his department by virtue of his authority to issue vouchers. If the controller of incurred expenditures refuses to give his approval to the vouchers, an appeal may be taken to the Minister of Finance, who gives a final decision. A minister who makes expenditures without the approval of the controller is criminally liable for his action. This has been the case since 1922, but the law has not been enforced. The authority of the controller, Jèze asserts, is ineffective, because he lacks the power to hold up vouchers when he questions the expenditures. Hence financial control, as it now exists, is largely that of an interested minister over himself. However, each minister must keep accounts in his department according to the regulations of the Minister of Finance, who examines the accounting statements before they are submitted to the *Cour des Comptes* for final verification. These accounts are also examined by the Commission for the Verification of Accounts of Ministers, composed of nine members, selected by the chief executive from the Senate, the Chamber of Deputies, the *Conseil d'Etat*, and the *Cour des Comptes*. This Commission reports to Parliament its findings, which are often of a most cursory nature. According to Allix, it has not functioned normally since the World War, due to delays in rendering the accounts.

Under the prevailing system the Minister of Finance, as Jèze puts it, "does not exercise a direct, permanent and effective control over the financial activities of the other ministerial depart-

ments. Each minister uses the *crédits* granted to him without interference from the Minister of Finance. Where additional appropriations are necessary, the Minister of the Budget demands them from Parliament in agreement with the interested minister." On the other hand, the Minister of Finance "has the power to incur public expenditures regardless of their legality. His orders, even if unlawful, must be obeyed by the controllers of [incurred] expenditures and the [departmental] accountants. He has the power of releasing the accountants from their responsibility." Thus it would seem from Jèze's observations that the French financial system, from the standpoint of administration, is loose at both ends,—that is, with respect both to departmental and central control. Furthermore, he says: "There exists no authority comparable to the office of the Comptroller and Auditor General of England to prevent the Minister of Finance from violating the will of Parliament."

Several proposals have been made to reform the French fiscal system, especially the part dealing with the incurring of expenditures. It has been suggested that ministerial responsibility for departmental expenditures should be made effective by penalties. Indeed, as noted above, a law to this effect was passed in 1922, but it has been practically a dead letter. This experience seems to bear out what a member of the Chamber of Deputies said many years ago, namely, that "ministerial responsibility resembles a scarecrow." Another proposal, apparently more practicable, is to establish supremacy on the part of the Minister of Finance during the execution of the budget. Jèze favors this plan; in fact, he asserts: "The Minister of Finance must have the power of control over the financial affairs of the other ministers, and he must be willing and capable of exercising it." However, he wonders if this plan is possible, because of ministerial jealousy. A third proposal is to bring the legislature definitely into the process of budgetary control. To this plan Stourm raises serious objections. "Generally speaking," he says, "the control during the

execution of the budget can neither constitutionally nor practically rest with the legislature—not constitutionally, because the execution of the budget rests with the executive; and not practically, because the power of the legislature is so great that it cannot fail to encroach on somebody's functions the moment it interferes." Since Stourm wrote the foregoing passage, laws have been enacted in 1917, 1918, and 1922, authorizing the *rapporteurs* (chairmen) of the finance committees of the two chambers of Parliament to follow and control the use of *crédits* and to demand the information necessary for this task, and requiring the ministers to furnish the *rapporteurs* with monthly statements of *crédits* opened and vouchers issued. According to Allix, parliamentary control of the execution of the budget, even under these legal provisions, remains almost as illusory as before. Even so, he sees danger in this attempted usurpation of executive authority by the chambers. Finally, there is a suggestion for giving the Cour des Comptes authority to exercise "preventive control" over the execution of the budget, which we shall discuss in the next chapter.

Financial Systems of Central European, Soviet, and Japanese Governments

The financial administration of the parliamentary governments of central Europe resembles that of France. It is usually centralized under a single ministry, however, at the head of which is the minister of finance. While the powers and responsibilities of this officer vary from country to country, they follow in the main those of the French Minister of Finance and Minister of the Budget combined. This is the case in Belgium, in several of the post-war states, and even in Fascist Italy, where the French system has been copied in its broad outlines. But these states in some instances have avoided or remedied the most serious weaknesses of the French system. Although the financial systems of the Netherlands, Switzerland, and the Scandinavian states resemble the French system in some

respects, they have certain individual characteristics, which appear to have developed either as a result of local evolution or because of German influence.

The financial system of Germany is the farthest removed from the French pattern of any of the European systems. As organized under the Weimar constitution, it maintained the German tradition, favoring a powerful executive, and thus approached the English system, particularly in the matter of budgetary control. Since the Nazi régime, it has become even more centralized than it was under the second Reich. The Minister of Finance is now virtually at the head of the financial administration of all Germany, both national and local. He exercises enormous powers in the assessment, collection, and apportionment of governmental taxes, in the control of expenditures under the budget, in the issuance of public loans, and in the realization of economic policies. In the Cabinet he stands next to the Chancellor, and when the two are in agreement they are supreme in all financial matters; the remainder of the cabinet members cannot overrule them, although voting solidly in opposition.

In Soviet Russia, the task of administering the budget falls mainly upon the Commissariat for Finance, a department of the central administration. However, the Commissariat for Workers' and Peasants' Inspection, as we shall see in the next chapter, exercises wide powers of fiscal control, due to its close connection with the central Committee of the Communist Party. Indeed, executive, as well as political, control of the budget may be said to spring from this Committee. The Commissariat for Finance is headed by one of the People's Commissars, who is a member of the Sovnarkom, or administrative cabinet. The Commissar for Finance, as this member is called, is assisted by certain bureau chiefs who carry on through their staffs the detailed work of financial administration. This work consists principally of the collection of funds for the support of the Soviet budget, which amounted to about 35 billions of

rubles in 1933; the custody of these funds in special banks; and their expenditure for the purposes outlined in the budget, with an audit and check on all payments. The Commissariat for Finance also supervises the carrying out of the budget in the so-called republics and autonomous areas, and in the local units of government. This broad authority is entirely logical under the Soviet system, as previously explained.

The financial administration of Japan, patterned after the early Prussian system, is centralized in a department under the supervision of the Minister of Finance. The functions of this officer are defined by law as follows: "The Minister of Finance shall control the national finances, handle the business concerning revenue and expenditure, taxation, national debts, money and currency, deposit, storage, trust business and banking, and look after the finances of the various provinces, counties, municipalities and public guilds." By virtue of these provisions, the Minister of Finance practically has control of all the nation's finances and has become one of the most important officers of the Cabinet. The Financial Department is organized under four main subdivisions or bureaus, namely, accounts, taxation, finance, and banking. It operates on the principle that the receiving and expending officers must, as far as possible, be kept entirely separate. The receiving officers are divided into two groups, those issuing orders for collection and those making collections or receiving money. The central receiving office, known as the Treasury or Cash Office, is managed by the Bank of Japan. No payments of cash can be made without passing through the Treasury. The expending officers are also divided into two groups, those issuing orders for payment and those actually paying out the funds. Orders for payment are issued by the ministers or other authorized officers; these orders then go to the Treasury, since no funds are held by the departments. All payments from the Treasury are made on the basis of departmental estimates which have been approved by the Minister of Finance as being within the limits of the appropriations. Frequent reports of the financial trans-

actions are made to the Board of Audit, discussed in the next chapter.

Financial Machinery and Methods of the United States

It is generally recognized that the financial organization of the national government of the United States is more decentralized and less effective from the standpoint of the execution of the budget than the fiscal machinery of most parliamentary governments, notably that of Great Britain. The Treasury Department did not develop along the lines apparently intended by its great organizer, Alexander Hamilton. He obviously sought to imitate the English system in so far as that was possible under the American constitution. But instead of the Secretary of the Treasury ultimately reaching a position comparable to that of the Chancellor of the Exchequer, he was soon reduced in authority to the level of the other heads of the administrative departments. Congress not only usurped the powers of the President and the Secretary of the Treasury in the preparation of the budget, but within a few decades it virtually took away their control over the execution of the budget by determining the details of departmental organization and by voting itemized appropriations directly to the administrative departments and subdivisions. By this process the Treasury Department was practically reduced, from the standpoint of budgetary control, to a collecting and disbursing agency of the government, maintaining only such accounts as were necessary to record these transactions. It was this situation, in part, that the budget and accounting act of 1921 sought to remedy. Under this act, as already noted, two new fiscal agencies were established, the Bureau of the Budget and the General Accounting Office.

The Bureau of the Budget, loosely attached to the Treasury Department, is headed by the Director of the Budget, appointed by the President. The Director is, for all practical purposes, a member of the President's so-called cabinet, consisting of the departmental heads. If he happens to be a person of ability and strong personality, he may even overshadow the

Secretary of the Treasury. Under such circumstances the administration has, in effect, two chief financial officers, constituting a duality of positions resembling that of France, which, as we have seen, has been roundly criticized by French authorities. While the duties of the Director of the Budget relate mainly to the formulation of the budget for the President, he has certain limited powers, not yet fully developed, with respect to the execution of the budget. But he is somewhat handicapped in exercising these powers by the fact that the central accounting system of the government is now placed under the General Accounting Office, which is completely outside his control or that of the Secretary of the Treasury.

The General Accounting Office, from the standpoint of the executive, is an independent establishment of the government. It is directed by the Comptroller General, who is responsible only to Congress, if indeed he is responsible to anyone. This officer, although completely separated from the administration, is vested with broad powers of financial control. He has authority to settle and adjust all claims either for or against the national government, to supervise a central accounting system, and to exercise a general check on treasury receipts and issues.

The exercise of the Comptroller General's authority to settle and adjust all claims involves mainly a function of the executive. Both the receipt and the payment of moneys under these claims belong to the Treasury Department, and so does the audit necessary to establish the validity of such claims. But the Comptroller General is empowered by law to make this audit, and the claims are not finally settled until he has done so. As a result the Treasury Department, in order to protect itself, makes an audit which is later duplicated by the Comptroller General. The latter, however, performs but one audit, which may be either a preaudit or a postaudit, when viewed in relation to the Treasury Department's action on the claims. In any event, this audit of the Comptroller General is final, and in

the nature of a review of administrative transactions. As a final audit it lays claim to being a legislative function—a post-audit conducted by an agent of Congress. And so the Comptroller General is in a dual position, performing certain functions which are essential to complete executive action, and others which, for theoretical and practical reasons, are prerogatives of the legislature. His duties are not only inconsistent in this respect, but they are illogical as well, since he virtually becomes the auditor of his own accounts.

In defending this dual rôle of the Comptroller General, Willoughby (*Principles of Public Administration*, p. 631) says: "It is the legislative branch that determines what administrative activities shall be engaged in, what instrumentalities shall be set up for the performance of such activities, what rules of procedure or conditions shall govern the administrative services in performing their duties, what funds shall be placed at their disposition for meeting their necessary expenses, and under what conditions those funds shall be expended and accounted for. In all this, the relations between the legislature and the administrative services are direct, except as it may desire to treat the chief executive as one of its administrative agencies. It follows . . . that the contention that the settlement and adjustment of claims represents the exercise of executive power and that the agency having the duty of making the settlement and adjustment of claims should, therefore, be an executive agency, is unsound, and is made only because those holding to this contention have failed to observe the distinction between executive and administrative powers and to recognize that the source of administrative power is the legislature. . . . On behalf of the present system, it may be said that there is an element of danger in permitting the service that incurred an obligation to pass upon its own acts in the settlement and adjustment of such obligations, and that far greater care will be exercised by those having responsibility for the incurring of obligations if they know that the manner in which they exercise

this responsibility will be subjected to the control of an independent agency acting for their superior, the legislature."¹ While this line of argument may be justified from the standpoint of American political and constitutional history, the net result is practically to leave the executive out of account in the execution of the budget, to reduce the financial authority of the Treasury Department and the Bureau of the Budget to the level of spending departments or agencies, and to make the several administrative services of the government responsible for carrying out the budget in piecemeal fashion, subject only to legislative supervision through the Comptroller General.

In order that the Comptroller General may settle and adjust all claims for and against the government, it is necessary for him to keep a set of general accounts. He is authorized to do this, and also to prescribe the accounting forms and procedure for the administrative departments and services. Just as the current financial control discussed above is an executive function, so is the general accounting, which is indispensable to the exercise of this control.

Finally, the Comptroller General establishes a check on treasury receipts and issues by countersigning all "warrants" drawn by the Secretary of the Treasury ordering moneys to be paid into or out of the treasury. While this function has become largely a routine matter, it is one that may properly be exercised by the Comptroller General, if confined within certain limits, such as those set for the British Comptroller and Auditor General. In this case, it belongs with the postauditing and investigational functions of the Comptroller General, which we shall discuss in the next chapter.

¹ While it is hardly fair to quote from a writer's earlier works to show that he is not consistent with his later arguments, it is nevertheless interesting to note what Willoughby thought, in his book on *The Problem of the National Budget* (pp. 39 and 42), published about ten years earlier. Here he asserted that "there are cogent grounds for holding that the legislature should be largely, if not wholly, excluded from the direct determination of the appropriation of funds. . . . The practical issue [however, in the United States] is one, not of elimination of legislative determination of appropriations, but merely of its restriction to such large questions of appropriation only as can in any sense be regarded as legislative. We enter here upon a root problem, the very existence of which has as yet been scarcely recognized in our budgetary practice."

More than ten years after the establishment of his office, few, if any, of the legal functions of the Comptroller General have been thoroughly developed; indeed, some of them have not yet been fully defined. This state of affairs, coupled with what would seem to be, in many instances, officious regulations, has led to some rather severe criticism of the work of the General Accounting Office, especially by the administrative services, which on several occasions have tested these regulations in the courts.

When the General Accounting Office was created, it took over from the Treasury Department the functions of the Comptroller of the Treasury and the six auditors for the departments, also part of the work of the Division of Bookkeeping and Warrants. The rest of the Treasury structure remained intact. At the present time, the Treasury Department collects the major part of the government's revenues, such as income taxes and customs. It has the custody and management of the government's funds and the payment of the principal and interest on the public debt. It issues warrants, with the visa of the Comptroller General, which permit expenditures to be made from appropriations either directly or through disbursing officers. It makes periodic reports on the financial condition of the treasury and the status of the appropriation accounts. It also has certain functions which are not strictly fiscal, such as the Public Health Service.

Aside from the Treasury Department, there are the departmental accounting offices. Each large administrative department or establishment maintains an accounting office, just as it did before the creation of the General Accounting Office. Indeed, these accounting offices now provide the main sources of information needed in currently administering the budget. They report monthly to the Bureau of the Budget on departmental expenditures, and furnish most of the data required in preparing the budget. They also perform an administrative, or first, audit of departmental claims before payment. On the whole, the accounting and auditing work of these offices, as well

as of the Treasury Department, is largely duplicated by the General Accounting Office.

In view of the situation just described there is a real need, it seems, for the centralization of the financial administration of the national government in the Treasury Department. The organization of this department should be refashioned to eliminate all activities extraneous to finance, such as the Public Health Service. Adequate provision should then be made for the exercise of genuine budgetary control through the Treasury Department by transferring from the General Accounting Office its controlling and accounting functions, leaving with that office only those functions of a postauditing and investigational character, as we shall explain in the next chapter. The central accounting system of the government should undoubtedly be maintained under the Treasury Department. The existing arrangement, at least when fully developed, is such as to deprive the executive very largely of any control over the sources of information necessary to the realization of the budget and the direction of the fiscal affairs of the administration. The Treasury Department should also have general supervision over employment and personnel, especially with reference to compensation, and over the purchasing of commodities for the use of the government. Investigational work pertaining to governmental finances and departmental efficiency should be conducted by this department.

Certain steps in this direction, involving the transfer of the controlling and accounting functions of the General Accounting Office and the work of the Bureau of Efficiency to the Bureau of the Budget, were proposed by President Hoover in December, 1932, but did not receive the approval of Congress. During 1933 President Roosevelt made several changes in the Treasury Department by executive order, two of which are worthy of mention in this connection. One was the creation of a Division of Disbursement, charged with the payment of all claims against the United States; the other, the establishment of a Procurement Division, intended to develop into a central

purchasing agency for the government. The former Division absorbed the disbursing officers of all departments and establishments, numbering more than two thousand. President Roosevelt also abolished the Bureau of Efficiency, transferring its records to the Bureau of the Budget. In the latter Bureau, he ordered the elimination of the Federal Coordinating Service, which had been in existence since 1921 as an adjunct of the budget work.

For some time Willoughby has advocated the establishment of a bureau or department of general administration to assist the President, mainly in the execution of the budget (*Principles of Public Administration*, p. 57). In 1929 he submitted to President Hoover a definite plan for a proposed Service of General Administration with the functions of budgeting, personnel administration, purchasing, and departmental investigation. It was evidently his intention to expand the existing Bureau of the Budget into this new Service, thus definitely setting up a department of general administrative and financial control separate and apart from the Treasury Department. If this proposal had been adopted it would have resulted in a duality of fiscal departments, as in France, unless the Treasury Department had been reduced to nothing more than an agency for the collection, custody, and disbursement of public moneys. It is difficult to see how this rearrangement of financial agencies would have produced, as Willoughby argued, an organ of general administration comparable to the English Treasury. A reorganization of the Treasury Department along the lines suggested in the two preceding paragraphs would seem more likely to attain something approaching this objective.

Within the last few years a department of finance, under the direction of an officer responsible to the governor, has been established in several state governments of the United States. The principal object of this department is to centralize the financial functions of the government, such as accounting, pre-audit, reporting, purchasing, and supervision of personnel, thus providing effective machinery for the exercise of budgetary

control. Since the department is in nearly every instance a statutory creation, it has sometimes fallen short of attaining this goal because of the existence of constitutional officers, such as the auditor and the treasurer, whose powers duplicated or limited those of the department of finance. But this department has already developed far enough in some states to indicate the practical advantages of refashioning the national Treasury Department along the lines suggested above.

THE MAINTENANCE OF BUDGETARY EQUILIBRIUM

An essential characteristic of the budget, as explained in Chapter V, is equilibrium. In formulating the budget, the executive strives to attain a balance between the anticipated income and the estimated outgo. Likewise in authorizing the budget, the legislature endeavors to preserve this balance intact. But as soon as the budget has been voted, interest in budgetary equilibrium immediately begins to wane, notably so in American practice. Possibly no attempt will be made during the entire fiscal period to ascertain if a balanced condition—the condition of making both ends meet, to use a homely expression—actually obtains in the operation of the budget.

Neglect of this important aspect of budgeting, especially during the current economic depression, has resulted in temporary insolvency for many of the subordinate governmental units of the United States. In an effort to meet this situation various devices have been used, often without success. The most effective means thus far employed may be called "current planning." But before discussing it, let us take up briefly some practices which vitally affect the authority of the executive in maintaining budgetary equilibrium during the carrying out of the financial plan.

Improper Legislative Restrictions on the Executive

When one compares the British executive with the American, it is apparent that the latter does not enjoy the same freedom of action as the former in carrying out the budget, but

labors under serious handicaps due to legislative restrictions and impedimenta. Aside from failure, thus far, to provide adequate fiscal machinery, Congress has placed certain obstacles in the way of the President in realizing the budget. Lacking any satisfactory means of checking the actual expenditure of funds by the administrative departments and establishments, Congress for decades has sought to control the financial operations of these agencies through detailed appropriations and legal stipulations as to how such appropriations were to be applied. After having enacted ponderous appropriation bills, carrying thousands of items, Congress has dismissed the matter of budgetary control, apparently satisfied that its wishes would be carried out to the last detail by the administrative agencies. Annual requests for large deficiency appropriations indicate that these agencies have not always been very scrupulous in living up to the expressed wishes of Congress. Other than to grant the additional funds requested, Congress has done nothing about it, except to make occasional investigations.

This pseudo-financial control on the part of Congress has had the effect of greatly strengthening the bureaucracy in the administrative departments and establishments, and at the same time of seriously curtailing the President's powers over the execution of the budget. Although detailed appropriations undoubtedly restrict administrative action, the bureau chiefs have preferred to be thus hampered by Congress rather than submit to current supervision and control by the President in making their expenditures. But this situation does not seem to have impressed congressional leaders,—at least, not enough to persuade them to abandon detailed appropriations and vote only certain major items. Of course, the abandonment of existing practice would lead to the necessity of strict executive control over the spending of appropriations, which the bureau chiefs have discouraged and which Congress has been unwilling to give to the President, except as a temporary expedient under recent emergency legislation.

The Practice of Mandatory Appropriations

Another serious handicap to the executive in the United States is the fact that appropriations are usually exclusive grants of public moneys to spending agencies, rather than authorizations requiring executive sanction before spending can begin and subject to executive control while spending is in process. In practice, this means that regardless of what condition may develop in the government's finances during the budgetary period, the several administrative agencies may expend the maximum amounts appropriated to them by the legislative body, and these amounts may not be curtailed or limited in any way by executive action, except as expressly provided in the law. Stated in another way, all appropriations become, in effect, mandatory charges on the public treasury. The executive is virtually estopped from the exercise of any real budgetary control.

This limitation on the executive's budgetary authority does not exist under English practice. Appropriations are not made by Parliament to the spending agencies themselves, but are voted as grants to the Crown, and no money is available to the spending agencies until the Treasury has given it approval. The release of appropriations for departmental expenditure is therefore an executive matter. In this way the executive can, if it chooses, control the rate of expenditure so as to meet any ordinary revenue deficiency which may arise during the budgetary period, and at the same time compel the spending agencies to practice retrenchment.

An adaptation of the English method has recently been applied in several states of the United States by providing that appropriations may be expended by the various state agencies only upon the approval of the governor. To secure this approval, the agencies are usually required to submit trimestrial estimates of their expenditure requirements to the governor's finance department or budget bureau. During the economic depression, some states have enlarged the governor's powers in

this respect, allowing him to reduce the amounts apportioned to the several spending agencies from appropriations so as to bring the actual expenditures of the government as nearly as possible into balance with its declining revenues.

Current Planning of Budgeted Income and Outgo

Experience seems clearly to indicate that the most effective means of maintaining budgetary equilibrium thus far devised is continuous planning of both expenditures and income while the budget is being executed. This planning is, or should be, the joint responsibility of the spending agencies and the central department of finance, acting under the general direction of the executive. On the expenditure side of the budget, it means the projection of work to be done, involving a work program, or its equivalent, for each spending agency, and the allocation of the expenditure requirements to the months or quarters of the fiscal year, thus determining the rate of expenditure on the basis of the work program. On the income side of the budget, it means the scheduling of the revenues and receipts which are expected to reach the treasury during the same periods of the fiscal year as those followed in the allocation of the expenditure requirements. The current budgetary balance is then determined by a comparison of the total expenditure requirements by months or quarters with the total anticipated or actual income for the same periods, taking into account any existing surplus or deficit.

Budgetary equilibrium may be maintained through this means, either by reducing the spending requirements or by changing the rate of expenditure at such times during the fiscal year as the actual collection of revenues and other income seems to require. In order to reduce or shift the rate of expenditure, it is usually necessary to revise the work programs of the various spending agencies of the government. But this revision cannot take place unless the appropriations are so authorized as to permit the exercise of executive direction and supervision in their expenditure, a feature discussed earlier in

this chapter. Programming of work by the spending agencies is greatly facilitated, as we have already indicated, when the appropriations are made in lump sums rather than in rigidly detailed amounts.

Since the expenditure side of the budget is the more logical one for the application of executive control, a word about the general nature of the work program will show why it is an important means to this end. Being prepared by each spending agency and approved by the central finance department under the supervision of the executive, the work program is essentially an administrative plan for carrying on the services or activities of that agency during the fiscal year. As such, it translates the legislative policy, expressed in the appropriation act and the general laws, into the exact terms by which it is to be realized. This would seem to be a preliminary and necessary step for any administrator who intends to proceed systematically with his departmental duties and responsibilities. When completely outlined, the work program allocates the expenditure requirements of the agency to months or quarters of the fiscal year, thus indicating the approximate rate of expenditure. By making a composite of all expenditure requirements, as allocated in the several work programs, the central finance department is enabled to forecast the total treasury demands for each month or quarter. Should these demands exceed the prospective income at any time during the fiscal year, the executive may call into play the flexibility of the work programs in maintaining budgetary equilibrium. It is possible to alter each work program within certain limits during the fiscal year in order to meet changing conditions either in service requirements or in realization of income. A small reserve, set aside on a percentage basis from the total appropriation at the time each program is formulated, usually provides all the flexibility that is necessary. We shall speak of this reserve later.

In exercising budgetary control the leading governments utilize current planning, embracing work programs, in one form or another. The English Treasury demands from each depart-

ment or agency of the government a spending plan in the nature of a work program. When this plan has been examined and approved by the Treasury, it becomes the basis of expenditure supervision and control during the fiscal year. Inasmuch as the English system leaves the release of appropriations to the discretion of the executive, the Treasury may require the departments and agencies to modify their spending plans to meet changing conditions and thus aid in keeping a budgetary balance. The French Minister of Finance requires monthly statements from the other ministers setting forth the probable expenditures of their departments, the total of which he compares with the estimated treasury resources for the same period. In this way he arrives at the funds available for release to the several departments, informing each minister of the amount assigned to him for the following month. The German Minister of Finance follows a similar plan; likewise, the Japanese Minister of Finance.

The United States government, however, has not yet developed budgetary control of this general nature, mainly because of the mandatory character of appropriations and because Congress has been unwilling to give the President powers of financial supervision and direction. Although the Bureau of the Budget, by reviving the so-called anti-deficiency act of 1906, attempted to establish current planning and quarterly allotment of appropriations for the spending departments and agencies, it was unable to make the scheme fully effective. It soon discovered that, under the existing system, final authority in making expenditures rested with these departments and agencies, and that very little could be accomplished unless the President's power was extended to include budgetary control. As things now stand, the President can caution or admonish the departments, bureaus, and agencies concerning their expenditures, but he has no legal authority to check or control them in spending their appropriations. A recent exception is the temporary authority conferred upon President Roosevelt to reduce and regulate expenditures under the "Economy Act,"

passed by Congress in March, 1933. This move offers considerable promise as an entering wedge in establishing a precedent for executive supervision in the future.

Devices for Adjusting Actual to Authorized Expenditures

Aside from the means just discussed for maintaining budgetary equilibrium, there are certain devices of a limited nature employed in adjusting the discrepancies which are almost sure to arise between the actual and the authorized expenditures during the execution of the budget. The main causes of these discrepancies are overexpenditure of detailed appropriations, unforeseen shifts in needs, or minor emergencies. The devices usually employed are: (1) transfers, (2) executive grants or appropriations, (3) contingent appropriations or funds, and (4) percentage reserves of appropriations.

The use of transfers, or "virements," as they are called in France and sometimes in England, finds wide application among the leading governments. In some countries, particularly France, transfers have led to serious abuses. French authorities point out that transfers have weakened parliamentary control and made the itemization of appropriations rather meaningless. For these reasons the use of transfers was practically abandoned in 1871 in favor of *crédits additionnels*. In England, the civil departments are permitted, with Treasury sanction, to make transfers between the subheads of a vote, while the Admiralty and Air Ministry are allowed to make similar transfers from vote to vote. Under the restrictions set up by the Treasury, Young thinks that "the power to transfer . . . makes for accuracy in estimating and for economy in expenditure." This power has apparently not been abused. In Germany, the transfer of appropriations within governmental units is permitted with the consent of the Minister of Finance, and in Japan such transfer may be made within certain departmental limits at the discretion of the minister concerned. The transfer of appropriations in the national government of the United States is quite limited, Congress preferring

to maintain the rigidity of detailed appropriations and, if need be, supplement these appropriations by deficiency allowances. But the state and local governments have usually made extensive use of transfers as a means of giving, as it is frequently expressed in their budget laws, "some degree of flexibility to the appropriations." The legislative bodies of these governments, in true serio-comic style, persist in voting detailed appropriations, but allow them to be altered almost beyond recognition before the end of the fiscal year by the use of transfers.

Executive grants or appropriations are not uncommon in many countries, especially in cases of emergency. In England, when it becomes necessary to make an expenditure which has not been foreseen, and Parliament is not in session, the Treasury takes the responsibility for incurring it in anticipation of parliamentary sanction. The need for the expenditure, of course, must be very urgent, or the Treasury will not act. Under similar circumstances the Governor General of Canada may authorize expenditures, which have not been appropriated, by drawing his warrant upon the Treasury. By a law enacted in 1922, the French government is authorized to open *crédits*, through a decree of the Council of Ministers, for expenditures on behalf of public security, provided these *crédits* are later ratified by Parliament. The government has frequently made use of this power without giving publicity to its transactions, thus, in the opinion of Jèze, greatly reducing the effectiveness of parliamentary control. The practice of executive grants or appropriations is frowned upon in the United States, where it is regarded as a usurpation of legislative power even in cases of emergency.¹

Contingent appropriations or funds are provided by some governments, out of which the executive or the central finance department may supplement regular appropriations or meet emergency expenditures. The English Parliament maintains

¹ In Chapter III we have already discussed the broader implications of executive authority in the matter of authorizing appropriations.

a fund of one and a half million pounds, called the "civil contingencies fund," from which the Treasury may spend to meet small contingencies in the civil departments. The amounts so spent are returned to the fund out of subsequent appropriations by Parliament, carried as supplementary estimates or excess grants. The fund is thereby maintained intact from year to year. Disbursements from it are checked by the Comptroller and Auditor General, and the Public Accounts Committee "watches with some jealousy to see that the Treasury does not make use of the fund to release the departments to any substantial extent from the limitations of the scheme of appropriation." In Japan a similar fund of about three million yen is used to meet small deficiencies in appropriations and any ordinary contingencies. Many states and municipalities of the United States have provided so-called "contingent funds," which are in most instances merely lump-sum appropriations that may be distributed through executive channels for emergency purposes. These funds sometimes amount to as much as three per cent of the total budget for current expenditures. Although regarded by some administrators as a satisfactory means of providing for small contingencies, such funds are open to abuses unless rigidly controlled.

A device for adjusting discrepancies between appropriations and actual expenditures which has recently found favor in American states and municipalities, and to a limited extent in the national government, is a percentage reserve withheld from the appropriations of each spending department or agency at the beginning of the fiscal year. In experimenting with this reserve, governmental authorities have usually set aside amounts ranging from two to ten per cent of their total appropriations for operation. These amounts are then placed under executive control and released during the fiscal year as conditions seem to demand, but always upon the direct application of the department or agency concerned. All ordinary variations in expenditures may be met in this way. It is also possible, within the limits of the reserve, to adjust the total

expenditures to diminished revenues during the fiscal year. However, in making extraordinary adjustments in expenditures occasioned by major emergencies, governmental authorities, especially those in the United States, generally resort to the authorization of new or additional appropriations. This procedure has, at times, endangered the budgetary balance, since provision for financing such appropriations was not made at the time of their authorization.

THE TECHNICAL INSTRUMENTS FOR EXERCISING BUDGETARY CONTROL

We now come to a brief consideration of the technical instruments employed by the executive in the exercise of budgetary control. The more important of these are: (1) a modern system of general accounting and reporting; (2) careful preaudit of income and outgo; (3) methodical handling of public funds; (4) central supervision of the acquisition and use of services and commodities; and (5) provision for continual research and investigation looking toward public economy. The primary objects of these instruments are to provide executive and administrative control over the income and outgo of the government, to safeguard the handling of public moneys, to regulate the use of services and supplies, and to furnish ready and dependable information for current and future action with respect to the budget.

General Accounting and Reporting

Governmental accounting, originally designed simply as the means of ascertaining if public officers handled the funds entrusted to them with fidelity, has now become the chief vehicle through which financial information is secured for administrative and budgetary purposes. This information, relating both to income and outgo, is furnished mainly by the general accounts. These accounts are commonly kept either on the cash basis or on the accrual basis. The latter is sometimes referred to as the commercial basis, since it is derived from the practice

of business concerns. Accounting on the cash basis provides merely a record of the moneys actually received and disbursed by the government; it does not ordinarily show the revenues or other income due the government, or the expenditures incurred by the government. It therefore furnishes information simply with respect to settlement and liquidation, and not with regard to receivables and obligations. Both types of information are readily supplied by accounts kept on the accrual basis.

Several of the national governments, notably those of England, most of the British dominions, and the United States, operate their accounting systems essentially on the cash basis. If their authorities wish information of the accrual type, they derive it through independent computations rather than directly from the accounting records. The French accounting system is on a modified accrual basis, which we shall explain later in this chapter. It has been copied extensively by the governments of continental Europe. Germany, however, has employed an accounting system that more nearly approaches the regular accrual, or commercial, basis. Very often the public undertakings of these governments are required to maintain accounts on a strictly commercial basis. Several state and local governments of the United States now have accounting systems which are mainly on the accrual basis, and the local authorities of England and Scotland also approach this basis in reporting their annual accounts.

Under the national accounting system of England, there are two sets of accounts which show the operations for each financial year, namely, the "exchequer account" and the "appropriation accounts." The exchequer account shows the receipts into and the issues from the consolidated fund. It operates on a strictly cash basis, being closed promptly at the end of the financial year, or, to be exact, at four o'clock on the afternoon of March 31. The appropriation accounts, kept by the different departments, show in detail the expenditures made under each vote. They record all payments the orders for which have been signed before the closing of the exchequer account. The

signing of these orders automatically includes the payments in the exchequer account for the financial year, although the actual disbursements may not be made until a later date. The appropriation accounts are closed three months after the end of the financial year, and any obligations then outstanding are settled in the succeeding financial year. Thus, the total expenditures shown by these accounts may not agree with the total issues recorded in the exchequer account. But this discrepancy is largely smoothed out by the overlap from one year to the next. What the system lacks in exactness, it seems to make up for in simplicity. It supplies information promptly at the close of the financial year, which is quite important from the budgetary standpoint. Within three months after the financial year ends, the annual report of the exchequer account makes its appearance in printed form.

The French accounting system rests on the notion that the fiscal year, as Bastable expresses it, "is invested with a kind of personality." Therefore an attempt is made to record all financial transactions according to the fiscal year to which they relate. As a result, the French have invented the term *exercice* to indicate the year to which financial transactions relate, as distinguished from *gestion*, meaning the year in which these transactions actually take place. In order thus to maintain the identity of each year's transactions, a set of accounts is provided and kept open until all the transactions pertaining to a single year are completed. Until quite recently it was not unusual for these accounts to stay open for as long as five years, during which time all arrears of income and outgo belonging to the particular year were recorded. While this system has the appearance of completeness, its operation is complicated and the information supplied by it is often delayed far beyond the point of any practical utility. By 1928 the issuance of the *Compte Général*,—the general accounting report,—had been delayed as much as ten years, due as Haig puts it in his study of *The Public Finances of Post-War France*, to "the demoralized state of the accounts." When Haig made his study, a

decade after the close of the World War, he asserted that "huge amounts are still floating about in the records," and that "no one knows to what year's accounts these drifting derelicts will ultimately be attached." Young's criticism of the continental (French) accounting system would therefore seem justified (p. 180): "The business of government is continuous, and there is no special interest or value in undertaking laborious investigations and adjustments in order to allot to a certain year or to any other fixed period all the operations which can theoretically be considered to have had their origin therein." Contrasting the continental (French) with the English system, he continues: "What is of value is that the accounts should be nipped off sharply on a fixed date and a balance struck, in order that the Chancellor of the Exchequer may be able to start fresh on his budget with exact knowledge of the nation's financial position." After the change of the French fiscal year to April 1, in 1930, efforts were made, according to Allix, to shorten the period of the *exercice* to twelve, or even nine, months beyond the end of the fiscal year, requiring the definite closing of all accounts at that time.

While the accounting system of the national government of the United States resembles the English system, it lacks the simplicity of the latter and does not produce information with the same promptness. Although receipts are accounted for on a strictly cash basis, this is not true, as in England, with regard to expenditures. The outstanding balances of appropriations are not lapsed at the end of the fiscal year, even in the case of annual appropriations. The law provides that these balances must be available to meet obligations incurred during the fiscal year for a period of twenty-four months thereafter. This requirement greatly increases the difficulties of ascertaining the exact condition of the treasury at the close of the fiscal year and contributes to incomplete financial reports. But the unsatisfactory character of these reports, which have been severely criticized by competent authorities, is due mainly to the failure of the government to develop a central accounting system in

accordance with existing legal provisions. Willoughby, in his work on the *Financial Condition and Operations of the National Government, 1921-1930*, says that while the government has made some improvements in its accounting since the adoption of the budget system, it does not yet get out the reports which are necessary to show "its real financial condition and its real income and expenditure," and that such reports as are prepared for this purpose "are defective and at times absolutely misleading." Although the General Accounting Office, since its creation in 1921, has been charged with the duty of developing a system of accounting, very little, if any, progress has yet been made in this direction. This Office does not issue any reports on the general financial condition of the government. Information of this character must be gleaned, as prior to 1921, from the annual reports and more frequent statements of the Secretary of the Treasury, which still exhibit many of the shortcomings indicated by Willoughby.

Assuming that the financial organization of the United States government is refashioned, as previously suggested in this chapter, so as to permit the Treasury Department to develop a general accounting system under one of its divisions, it would seem advisable to place the accounts on an accrual basis, or a modified accrual basis, thus enabling the accounting officers to show not only receipts and disbursements but also accrued income and incurred expenditure. The application of accrual accounting to the national government would appear to be feasible, provided certain adjustments are made to allow for financial reporting from the far-flung activities of the government. Such accounting would supply information, particularly with respect to expenditure, that would be invaluable to the President and the Bureau of the Budget in maintaining budgetary control. It would also obviate the necessity of keeping the annual appropriation accounts open for many months beyond the close of the fiscal year to which they relate. With proper regard for funds and the nature of transactions, the accrual system would readily produce statements showing the

true financial condition of the government. Some of these, such as the operating statements, would lend themselves to presentation in the form of graphs, thus making monthly, quarterly, or yearly comparisons easy for the executive and those interested in federal finances.

A move in the direction of accrual accounting has already been made by the Treasury Department. According to executive order, this Department recently initiated in its Division of Bookkeeping and Warrants certain accounts (Circular No. 494, August 5, 1933, as amended by Revision No. 1, June 1, 1934) whereby obligations and encumbrances against appropriations may be ascertained. These accounts are kept current through frequent reports from the various spending departments and establishments. The information derived from them is supplied to the Bureau of the Budget as a means of exercising budgetary control from month to month over the expenditure of appropriations.

Preaudit of Income and Outgo

The preaudit, as the term is commonly used, refers to the checking of revenues and receipts at the time of collection and the examination of claims before payment. It is ordinarily performed by one or more of the executive agencies of the government. In the English government, the departments actually engaged in collecting and spending public moneys perform the preaudit, which is rechecked in the case of disbursements by the Paymaster General, acting under the direction of the Treasury. But in the United States the preaudit is usually performed by a central finance department or accounting office. This department or office, however, is not always under the control of the executive; frequently it is under an independent officer, appointed by the legislature or chosen by the electorate. The national government and many of the state and municipal governments have such officers, usually called either controllers or auditors, who are authorized to conduct the preaudit. This arrangement generally confuses the pre-

audit and the postaudit functions, as we shall explain in the next chapter, and hence is undesirable from the standpoint of budgetary control. British experience clearly demonstrates the need for keeping the preaudit under the executive and distinguishing it from the postaudit, which is performed by an agent of the legislature.

Recent efforts to reorganize the auditing work in some states and several municipalities of the United States have been in the direction of British practice. The executive has been given supervision over the preaudit work, which has been centralized as far as possible in a department of finance. The officer having charge of the work is often detached from both the collecting and spending units of the department of finance, and thus enabled to approach his duties without bias and without the likelihood of being improperly influenced in his decisions. In the event that he fails in his work, there is a final check afforded by the postaudit and legislative review, described in the next chapter. Efforts have been made in some governmental units to extend the preaudit to performance, or the checking of work done, involving the use of services and commodities. But this step has been greatly impeded, due to the fact that cost accounting has not yet been fully developed in any governmental units of the United States. Rapid progress, however, is being made in this direction.

Methodical Handling of Public Funds

The methodical handling of public funds is sometimes spoken of as treasury management. It is generally understood to involve the procedure directly connected with the collection, custody, and disbursement of money for the support of the government. In normal times, the great bulk of this money is derived from taxes, either direct or indirect, which are assessed and collected by certain departments of the government. These departments often separate the functions of assessment and collection, whenever feasible, by requiring one set of officers and employees to do the assessing of a given tax,

while another set does the collecting. This separation is deemed advisable for purposes of financial control, especially in the cases of the more important taxes. It is now the established practice in several countries, notably England, France and Japan.

Under the English Board of Customs and Excise, the work of assessment and collection is in different hands, so that one set of officials acts as a check on the other. The same arrangement prevails under the Board of Inland Revenue, particularly since 1931 when its organization was readjusted in keeping with a recommendation of the Public Accounts Committee. Prior to that time, this Board had made certain concessions to local administration in the matter of income tax.

In sharp contrast with the English system is that employed by the national government of the United States in connection with customs and internal revenues. The same officers and staffs, in each instance, generally have charge of both the assessment and the collection of these taxes. If taxpayers are disposed to defraud the government by corrupting its agents, they find it less difficult under this scheme, since they have only to deal with one set of agents instead of two. Furthermore, such arrangement adds to the difficulties of auditing the operations of these agents, because the records do not usually show assessment and collection as separate steps when performed by the same individuals. Willoughby thinks, however, that these drawbacks are outweighed by the additional expense required to maintain separate organizations and the interchange of records between them. But he holds that it would be well to recognize the separation of assessment and collection by setting up separate staffs or subdivisions within the same unit; for example, within the Bureau of Customs, or the Division of Internal Revenue. Indeed, he believes that these two units should be merged in a single Bureau of Revenue under the Treasury Department, with administrative subdivisions so constituted as to separate assessment and collection.

Aside from various taxes, governments receive revenues

from public enterprises, from departmental receipts, and from miscellaneous sources. In the case of these revenues, their assessment is often simultaneous with their collection, making it impracticable to have two sets of agents. Other means of control are then used, such as an audit on the spot by an officer of the central finance department.

As the money for the use of the government is collected, it is usually turned over to an officer known as the treasurer. His duty is to hold this money in safekeeping until such time as it is needed, and then to see that it is correctly disbursed. He does not actually keep the money in his possession, but turns it over to one or more banks, which act as depositories under regulations designed to insure safety. In England, for example, the money derived from taxes and other revenues and receipts is turned over immediately by the collecting agencies to the Bank of England, where it is placed to the credit of the consolidated fund. All disbursements from this fund are made by the Paymaster General upon authority from the Treasury and by virtue of drafts drawn to creditors by the spending departments.

The national government of the United States follows a rather cumbersome method in recording the money paid into and out of the treasury. It uses documents known as "treasury warrants." The warrants ordering money to be paid into the treasury are called "covering warrants"; those ordering money to be paid out are called "settlement warrants" when payment is made directly from the treasury, and "accountable warrants" when payment is made through a disbursing officer. In order to make these warrants valid, the Comptroller General must countersign them after they have been drawn and signed by the Secretary of the Treasury.

An important feature in handling public money is the concentration of all revenues and receipts in the general treasury. England accomplishes this to a high degree through the use of the consolidated fund. All receipts are paid into this fund and all disbursements are made from it; at least, this is the prin-

ciple upon which the fund operates. It is claimed that the exceptions—and there are a few—do not vitiate the principle, since they are of minor importance and adequately controlled in each instance. One exception is the so-called “appropriations in aid,” by which certain departments are permitted to retain and expend the miscellaneous revenues or “extra receipts” which they collect without passing them through the consolidated fund. Another exception is the authority which the revenue departments have to meet certain of their expenses out of the revenue which they collect before turning it into the consolidated fund. Two other exceptions are in the nature of special funds, the road fund and the unemployment insurance fund, both established in 1920. According to Hills, these funds have thus far had an unfortunate history, so much so that he thinks they ought to be abolished and the money they provide voted directly by Parliament. He is also quite critical of the appropriations in aid, and indicates that they ought to be dispensed with (*The Finance of Government*, 2d ed., pp. 31, 79).

In recent years the general movement in the governmental units of the United States has been toward concentrating all money in the treasury. But at the same time there has been an increasing tendency to create special funds, thus detracting greatly from the advantages gained by concentration. In some state governments there are actually scores of these funds, which serve to hamper financial management and restrict budgetary control. Congress, too, has recently added to the number of special funds in the national treasury by earmarking certain receipts for specific purposes. If this practice continues, the excellent rule of one fund, the general fund, for all operating purposes will become a thing of the past.

Before money can be expended by the treasury, the executive is often required to release it, sometimes with the approval of a legislative agent. In France, Germany, and Japan, as we have noted, the executive, acting through the minister of finance, releases money in the treasury for expenditure each

month by the several departments, according to their estimated requirements, and within the limit of funds available in the treasury. Under the English system, the release of money for expenditure is made by the executive through the Treasury, with the approval of the Comptroller and Auditor General, an agent of Parliament. The Treasury sends a requisition to the Comptroller and Auditor General, who grants credit in a lump-sum amount, provided he is satisfied that appropriations are available for the purpose indicated, whereupon the Treasury orders credit to be issued from the Bank of England to the Paymaster General. The part played by the Comptroller and Auditor General, as we have intimated, is now largely a formality. In the United States, money is placed to the credit of the appropriation accounts in the Treasury Department by the Comptroller General, an agent of Congress, through his countersigning the “appropriation warrants” drawn by the Secretary of the Treasury. This procedure, too, is largely a routine matter. Some states also require the release of money to the treasury by the chief finance officer before expenditure.

After credit on account of appropriations has been duly established, the spending of money from the treasury involves two operations: one, the issuance of checks (often called warrants or drafts) to the creditors of the government; and the other, the actual payment of these checks. The first operation includes the examination of the claims presented by the creditors before the checks are actually issued, which is the pre-audit already described. This examination insures, among other things, that the claims are *bona fide* and that appropriations are available to meet them. If the examination is satisfactory, the department or office making it may then draw the necessary checks and make the required entries against the appropriation accounts. The second operation, involving the payment of the checks when presented, is essentially a treasury function. This operation is usually performed by the banks, although it may be handled directly by the treasurer or by disbursing officers.

Here again, as in the case of assessing and collecting taxes, it is the rule in most countries to assign each of these operations to a separate set of officers. In England, for example, the accounting officer in each department performs the first operation, while the Paymaster General, under the Treasury, attends to the second. This arrangement assures that claims passed by the spending departments will again be scrutinized by an agent of the Treasury before payment. In the United States, however, prior to 1934 some two thousand disbursing officers, located in the various spending departments of the national government, not only passed on the validity of claims but actually paid them, subject to final review by the Comptroller General. Since these officers belonged to the staffs of the departments which they served, they lacked the independence necessary to enable them to question the propriety of the payments which they were called upon to make. This situation, however, was changed by President Roosevelt through an executive order, issued under the provisions of the "Economy Act" of 1933, transferring all departmental disbursing officers to the Treasury Department on December 31, 1933, and setting up therein a Division of Disbursement.

Central Supervision of Services and Commodities

From the standpoint both of performance and cost, personal services undoubtedly constitute the most important element in the day-to-day operation of any government. Next in order come commodities of one kind or another; that is, supplies, materials, and equipment. Contractual services, too, are generally a large item. The recruiting and paying of personnel, the purchase of contractual services, and the buying and handling of commodities, therefore, assume considerable significance in the execution of the budget. Hence the central supervision of these processes becomes a matter of vital concern to the executive.

In England, as already noted, the Treasury exercises such supervision. It controls the number and compensation of the

personnel in each department. It also regulates the expenditures for supplies, materials, equipment, and quarters, but perhaps not as extensively as in the case of personnel. The centralized buying of commodities, however, has not yet come into vogue in the national government, and only to a limited extent in the local governments.

In the national government of the United States, any direct supervision over personnel, either in numbers or compensation, by the Treasury Department or by the Bureau of the Budget, is lacking. As an emergency measure, Congress, in the special session of 1933, gave President Roosevelt broad authority to deal with departmental personnel in bringing about payroll economies. This authority, exercised largely through the Bureau of the Budget, is, however, temporary in character. Thus far, adequate control over expenditures for supplies, materials, and equipment has not been fully established. President Roosevelt provided by executive order for the organization of a Division of Procurement in the Treasury Department, which became operative on December 31, 1933. Whether this Division will emulate the practices of the more successful centralized purchasing agencies, now established in several state and municipal governments of the United States, remains to be seen.

Research and Investigation Looking toward Public Economy

Constant research into the processes of administration and continual investigation of departmental practices and procedures are necessary adjuncts to budgetary control. Every executive should have a trained staff agency, not simply to gather and compile the estimates, but to follow the day-to-day operation of the budget. Departmental work programs need to be studied, and expenditure allotments examined before approval. Monthly and quarterly reports need to be related to actual performance, economies noted, and changes in procedure suggested. Without trained assistants the executive is liable to find such work quite burdensome, so much so that it is likely to

sink to the plane of routine matters and hence lose most of its value.

In speaking of the investigational activities of the English Treasury, Hills says (p. 129): "... it is in a position to bring expert knowledge to the examination. Seeing the estimates of all spending departments year after year, the Controller of Supply Services and his experts, the Treasury officers of accounts, can compare costs in different years and in different departments. The Controller is thus able to form a fairly accurate judgment as to what costs are excessive and what are justifiable. The Controller of Establishments can at once put his finger on a case of redundant staff. He is the final arbiter of the establishments of all the departments. Thus through its highly trained personnel, its long experience, and its power to take a general survey, the Treasury carries a weight even greater than its wide actual powers. Its control rests not on rules only, but on character and influence, and the continual insistence on economical management and frugal spending."

The Bureau of the Budget of the United States government is intended, in addition to its other duties, to serve as an investigational agency for the President, but it has not yet attained, and probably never will attain, anything like the standing of the British Treasury in this field. The act creating the Bureau specifically authorized it to conduct a detailed study of the federal departments and establishments for the purpose of enabling the President to determine what changes should be made in the existing organization and methods, in the regrouping of services, and in the appropriations for activities. This investigational service of the Bureau, however, was not utilized to any extent until about ten years had elapsed. It was employed in the closing year of the Hoover administration and during the early months of the Roosevelt administration in devising executive plans for the regrouping and more economical operation of certain administrative units. Prior to that time, the Bureau had concerned itself with the establishment of so-called coordinating agencies (abolished by the Roosevelt

administration), which were intended to improve governmental practice and procedure through general agreements. In addition, the Bureau had organized several "clubs" among the federal employees, such as the One Per Cent Club, the Correspondence Club, and the Woodpecker Club, as the means of bringing about some economies in the operation of departments and establishments. But these clubs lapsed and were forgotten shortly after President Hoover took office. The Bureau's efforts in these directions, although inspired by good intentions, tended to hold it up to ridicule in Congress and to weaken its influence in the administration. If it had put an equal amount of effort into a careful investigation of the administrative machinery and methods of the government, its services would have been more valuable, as recent events have shown, and its standing no doubt enhanced.

CHAPTER IX

ACCOUNTABILITY FOR THE BUDGET AS EXECUTED

WE now come to a discussion of the fourth, and last, stage of budgeting, the enforcement of accountability on the part of the executive for carrying out the budget. The importance of this stage of budgeting in the maintenance and control of modern government can hardly be overemphasized. In the absence of effective means of enforcing accountability for the realization of policies and plans, the governmental forces—executive, administrative, or bureaucratic—are lacking in a necessary counterpoise, as indicated in Chapter II. The governmental machine is then virtually left to run *sans* brakes or governors—a dangerous and expensive method of operation.

Fortunately, this tendency for the governmental machine to get out of hand has been generally recognized by modern states, and suitable checks have been provided in most instances. These checks take the form of an audit or inspection by an agency not directly connected with or interested in the day-to-day operations of the government, and of a review of the findings of this agency by a body concerned with the authorization of the financial plans and policies. This audit, with its subsequent review, assumes three distinct types among the governments of the world, which for want of better terms we may call the legislative, the judicial, and the political type. The legislative type of audit is exemplified by the English system, providing a trained staff agency, responsible to Parliament, whose findings are reviewed by a parliamentary committee. The judicial type of audit, which is of French origin, sets up a court of accounts, independent of the legislature and the executive, whose findings are reviewed, though often ineffectively,

by the legislature. The political type of audit, now being developed by Soviet Russia, operates through an inspectional agency, which is responsible to the central group of the dominating political party. We shall consider these types of audit in the order just named, emphasizing the theory upon which they are based and the methods by which they function.

THE LEGISLATIVE TYPE OF AUDIT

The English financial system provides the original and best developed form of the legislative type of audit. Although it did not actually come into existence until after the middle of the past century, it had a most interesting background. As already sketched in Chapter I, the English Parliament won its first victory in the long struggle for control of the public purse by making the Crown come to it for money. Its second victory was the right to say how that money, when granted, was to be spent by the Crown; that is, the right of appropriation. But more than this was necessary if Parliament was to exert real control over the operations of the government. As Young says: "It was all very well to appropriate the money voted for a specific purpose, but what was to prevent the Executive, once it had got the money out of Parliament, from snapping its fingers at Parliament's directions as to appropriation, and from spending it as it pleased? It was not until at least a century after the time at which Parliament established its right to appropriate that it woke up to the inadequacy of a formal appropriation to secure its purpose, unless it exercised some supervision over the actual expenditure." It did not dawn upon the financial reformers until during the first half of the nineteenth century that active enforcement of grants by Parliament, after the appropriations had been released to the various spenders under the executive, was "a necessary coping stone of the structure of parliamentary control over finance." Gladstone was the first to state this idea clearly. "It is undoubtedly the business of the House of Commons," he said, "to be responsible, not only for the inception of all public expenditure, but

also to follow money raised by taxation until the last farthing is accounted for." To enable the House of Commons to do this, he set up two agencies, the Public Accounts Committee in 1861 and the Exchequer and Audit Department in 1866. With some slight changes in their functions, these agencies continue today very much as originally established. In the normal course of procedure, the work of the Department precedes that of the Committee, so we shall treat them in this order.

The Exchequer and Audit Department has at its head the Comptroller and Auditor General, whose complete title is "Comptroller General of the Receipt and Issue of his Majesty's Exchequer and Auditor General of Public Accounts." This officer is appointed by the Crown and serves during good behavior. He can be removed from office by the sovereign only upon address from both houses of Parliament; however, he is responsible solely to the House of Commons. He is independent of the control of the Treasury and of all executive departments. It is his duty, nevertheless, to coöperate with the Treasury, so that he really becomes an important official in seeing that treasury regulations are properly executed. The Cabinet cannot suppress his findings or override his judgment. His salary is a charge on the consolidated fund, and therefore not dependent on an annual grant by Parliament. This independence enables him to point out irregularities in accounts which may embarrass or discredit the executive, without endangering his future power. His office, Durell maintains, "has never been considered a reward for political services, nor is it conceivable that it would ever become one in view of the important duties which that official is required to perform; not for the government which appoints him, nor for the party in power, but for the House of Commons." Durell is certain that the House would vigorously resist any attempt to lower the status of the Comptroller and Auditor General or to reduce his usefulness by making his appointment on political grounds.

The functions of the Comptroller and Auditor General, as his title indicates, include two distinct tasks: one is control,

and the other audit. We have already noted in the preceding chapter his duties with respect to control, which are the less important of the two. As an auditor, his duties are extensive and require the aid of a staff of about 330 persons. The members of his staff do not all work in his office on the Victoria Embankment. For convenience's sake, part of them occupy quarters at the War Office, the Admiralty, and the Air Ministry. Several members are also stationed in the large centers of naval and military expenditure at Chatham, Devonport, Portsmouth, and Woolwich. In addition, members are now attached to some of the larger civic departments in London.

The auditing work of the Comptroller and Auditor General is in no way executive or administrative; his duty is merely to watch, search, inquire, and report; and he is not concerned with keeping general accounts. The work embraces three main phases, namely, verification of accounts, audit of expenditures and revenues, and a limited examination of the nature of expenditures to determine how wisely money has been spent.

In the verification of accounts, the Comptroller and Auditor General is required to examine and certify the accounts of the various departmental accounting officers. This includes a checking of all expenditure and revenue statements to see that they are properly set up and that they reflect the correct condition of finances. It is through this verification that the Public Accounts Committee and the House of Commons are assured that the accounting officers, who are responsible to the Treasury, are at all times maintaining appropriate accounts and acting in good faith. Occasionally, powerful spending departments have tried to interfere with this procedure. This has caused the Public Accounts Committee to declare that it is within the province of Parliament thus to enforce responsibility on the part of these accounting officers, that this constitutes part of the system of parliamentary control, and that it cannot be radically changed or discontinued except by Parliament itself. Under this interpretation, the duties of the accounting officer

have assumed such importance that they are not generally delegated to a departmental subordinate but are discharged by the permanent head of the department, who usually represents the department before the Public Accounts Committee.

In making his audit of expenditures, known as the "appropriation audit," the Comptroller and Auditor General goes into the details of all payments. For this purpose he has authority to require the departmental accounting officers to render their "appropriation accounts" to him or his assistants, and also any information relative thereto which he may deem necessary to the audit. The detailed checking of these accounts on behalf of Parliament is, as Young expresses it, "his chief end as an official." He must ascertain, first, whether the payments shown in the accounts have actually been made, and second, whether the money expended in each instance has been applied in accordance with the intention of the parliamentary grant. This necessitates his making an examination of the expenditure claims arising in the several departments during the financial year. But he does not attempt to cover all these claims, since that would be a tremendous and costly undertaking. In practice, he makes what is called a "test audit" of the claims in most of the large departments; that is, he selects some section of the departmental account which his auditors subject to detailed scrutiny. He assures himself in this way that the whole account is satisfactory. By rotating the section selected each year, he is enabled to cover the entire departmental account in the course of a few years. The effect of the audit is practically the same as if the whole account had been scrutinized each year, as the department does not know in advance which section will be selected. Formerly this method of a test audit was applied only to the accounts of the army and navy, but a revision of the exchequer and audit act in 1921 permitted the Comptroller and Auditor General to extend the method, at his discretion, to the civil departments. In addition to his audits at headquarters, he occasionally makes test checks on the local expenditures of departments by sending his auditors into the

field. Departmental records of stores and trading accounts also come within the purview of his audit.

In auditing the accounts of revenue receipts, the Comptroller and Auditor General is required to ascertain that adequate regulations are enforced to insure the proper assessment and collection of revenues, and he may, if he sees fit, examine the correctness of the amounts paid into the consolidated fund. This audit is also performed by the test-check method in the principal revenue departments. In making his audit of revenue, the Comptroller and Auditor General, according to Durell, "has, generally speaking, no power to go behind the administration with a view to seeing whether its accounts and records are complete." He cannot check omissions or concealed transactions, unless by accident or indirect evidence he should come upon them. His audit, both of revenues and expenditures, is continuous, being carried on throughout the entire financial year. It is in all instances a postaudit, or examination of documents after executive or administrative settlement.

While the audit of expenditures described above is designed to prevent the misapplication of funds and the overexpenditure of appropriations, it is not intended to forestall waste and extravagance. The latter purpose is accomplished, at least in part, by the so-called "administrative audit" performed by the Comptroller and Auditor General. He may push his investigation, at the request or with the approval of the Public Accounts Committee and the Treasury, beyond the letter of the law, and inquire into any payment which appears to be imprudent or wasteful on the face of the documents submitted to him. As a matter of practice, he usually reports to the Treasury on all changes which he observes in rates of pay, appointments, and the like, which require Treasury sanction. If, in his audit, he detects improper expenditure, or loss or waste of money, it is his duty to bring such facts to the attention of the Treasury and the Public Accounts Committee, even though there is nothing irregular in them so far as the appropriations are concerned. Although the Comptroller and Auditor General is somewhat

handicapped in this work, since his data are confined to the accounts, the documentary evidence, and whatever the departments choose to tell him, Hills believes that his efforts are undoubtedly of value. While Young agrees with Hills' opinion, he thinks that real departmental economy must be encouraged from another quarter, "and that is the financial branches of the great spending departments themselves." In some departments these branches are already conducting what Young calls "an internal administrative audit," designed to increase spending efficiency.

The results of the various audits are embodied in a report which the Comptroller and Auditor General makes some time after the end of each financial year. This report goes to the Public Accounts Committee and to the House of Commons. Any irregularities detected in the course of the audits which the departments are unable to justify, are featured in the annual report. They are then taken up for questioning and further investigation by the Public Accounts Committee. If the situation appears to demand it, the Comptroller and Auditor General may go directly to the Speaker of the House of Commons and get any matter laid before that body without waiting until the close of the financial year.

The Public Accounts Committee is appointed annually by the House of Commons at the beginning of each parliamentary session, usually in January or February. It is composed of fifteen members. Its chairman, according to custom, is a member of the "opposition" in the House, often a former Financial Secretary to the Treasury. The Financial Secretary to the Treasury actually in office is also a member. The other members usually have a broad knowledge of public finance gained from practical experience. Although the work of the Committee is exacting, many distinguished men have sat on it and "have labored there for the maintenance of the highest standards of financial rectitude, at a sacrifice to themselves of time, energy, and personal political interests which has been to the very great advantage of the nation." The Committee meets privately in its office in the Houses of Parliament, completely

withdrawn from public gaze or the roving news reporter. The Comptroller and Auditor General sits with it, and so does a high Treasury official. The Committee has before it the report of the Comptroller and Auditor General, which it usually follows, although any member of the Committee may raise relevant questions on his own initiative. The accounting officer of the department whose accounts are being examined appears before the Committee to explain or justify the payments which have been made. At the conclusion of the hearings the Committee formulates its decisions, with which the Treasury is usually in agreement since both are interested in enforcing regularity and economy in departmental administration. According to Young, "the Committee is the rod which the Treasury has been shaking over the heads of the Civil Service throughout the year." It is the business of the Treasury to enforce the decisions of the Committee. "If the Committee has censured something," says Young, "the Treasury communicates the censure, adds its own, and tells the department that it must not happen again. It is common indeed to find an opinion expressed with judicial mildness by the Committee enforced with far stronger language by the Treasury in communicating it to the department. Where the Committee has spoken as mildly as a sucking dove, the Treasury roars like a Libyan lion." The upshot is that the Treasury takes action on all the Committee's recommendations, often putting them into effect, either in part or as a whole, in the several departments, as it has full authority to do. And so, in Young's colorful language of the chase, "The Auditor General beats the bush and starts the hare: the Committee runs it down: and the Treasury breaks it up." When the Committee concludes its examination, it reports to Parliament. But seldom is its report discussed in the House of Commons, due to lack of time and also to the fact that the transactions reported upon occurred some two years earlier. Nevertheless, parliamentary control over the executive is attained through the work of the Committee.

Speaking of the efforts of the Public Accounts Committee,

Hills says: "Its work is perhaps the most valuable part of parliamentary control of finance. True, it does not sit till long after the money has been spent. But it renders future misfeasance more difficult. Its business is to see that all parliamentary grants, including supplementary grants, have been applied to the objects which Parliament prescribed. But in reality it does more. It looks into causes as well as consequences. It censures improper expenditure as well as improper accounting. It exposes waste and inefficiency. It . . . carefully examines the accounts, administering advice, reproof, and, by disallowing a charge, even punishment should it be necessary."

The entire system by which the House of Commons enforces accountability in the execution of the budget, says Durell, is "based on the essential principle that parliamentary control depends, not on complicated checks imposed before expenditure takes place, but on early audit of the expenditure after it has been incurred, and on an examination by Parliament itself of the results of that audit."

The essentials of the English system of audit are applied in the governments of the British dominions. The Scandinavian states, too, have imitated this system, and so has Switzerland, by establishing in each case an auditing agency responsible to the legislature. This agency conducts an examination of the accounts of the government and reports its findings to the legislature, or to a legislative committee, for review and criticism.

THE JUDICIAL TYPE OF AUDIT

The judicial type of audit is exemplified by the French system, under which the *Cour des Comptes*—the Court of Accounts—is the principal authority. The Court was established in 1807 under the Napoleonic régime as an agency of the Emperor, to pass on the accounts of the administrative officers. Later, under the Restoration, it became an auxiliary of the legislative power, and has so remained since that time. From the beginning it assumed the general characteristics of a court,

its members being appointed for life and enjoying the same prerogatives as judges.

Today the *Cour des Comptes* consists of a first president, three presidents of chambers, and twenty-one referees or judges, assigned seven to each chamber. In addition, there are 98 accountants or consulting referees of the first and second classes, and 31 auditors. There is also an attorney general, representing the Minister of Finance and the executive, who is assisted by an advocate general. It is the duty of these two officers to follow the proceedings of the Court and to transmit its decisions to the Minister of Finance. The Court sits ordinarily in three chambers or sections, each consisting of a president and seven referees. On some occasions, when discussing general questions, it sits as a single body, presided over by the first president. Its sessions are usually closed to the public.

The functions of the *Cour des Comptes* are confined to the investigation of accounts, conducted entirely through a post-audit. The Court exercises no control over the ministers or their subordinates, and it may not interfere with their work. It merely judges the accounts submitted to it and renders a report thereon to Parliament. Practically all accounts of the national government, both of receipts and expenditures, come under its scrutiny. It also inspects the accounts of all the local authorities.

The Court receives the accounts of administrative officers through the Minister of Finance, not months but years after the close of the fiscal period to which they relate. These accounts are submitted with all supporting documents. At first the accounts are given a preliminary checking, after which they are assigned by the first president to the proper chamber for detailed examination. Here the auditors verify the accounts and then turn them over, with their comments, to the referees, who in turn review them. The accounts and findings are thereupon presented to the Court, which in a solemn and deliberative manner arrives at its decisions. These decisions are transmitted to the Minister of Finance, who sees that they

are carried out whenever he thinks it expedient to do so. If questions arise regarding the propriety of any of the Cour's decisions, they may be taken before the Conseil d'Etat, an important administrative court, which has power to annul the decisions but no authority to go to the bottom of the matter by further investigation. This is, at best, a time-consuming procedure. Thus, several years (sometimes ten or more) after the close of the fiscal period to which the accounts relate, a report of the decisions rendered by the Cour des Comptes finally reaches Parliament. But by that time Parliament is no longer interested. Jèze therefore maintains, with justification, that the Cour's verification of the accounts is ineffective from the standpoint of parliamentary control.

Several suggestions have been offered to speed up the work of the Cour, such as relieving it of the local accounts, but none of these has been adopted. In order to lend some real weight to the Cour's authority, Stourm has proposed that it should exercise what he calls "preventive control" over the financial operations of the Ministry, similar to that exercised by the Belgian Cour des Comptes. This control involves the *visé* by the Cour of all expenditures before they are actually made by the departments. In this way, Stourm maintains, the Cour could curb the tendency on the part of the ministers to exceed appropriations, which upsets the original estimates and destroys budgetary equilibrium. No other agency, he thinks, "could perform this indispensable service in France." Allix, however, believes that the Cour's exercise of "preventive control" is open to serious objections on the grounds, first, that it would relieve the administration of the responsibility for checking itself, and second, that it would detract from the disinterested position and judicial dignity of the Cour by associating it directly with active administration. Since the reports of the Cour des Comptes are so belated in reaching Parliament as to be practically useless for purposes of parliamentary control over the execution of the budget, recent legislation has provided that

the ministers furnish the finance committees of the two chambers with current information on their fiscal operations. This method, however, has not proved satisfactory.

The Belgian Cour des Comptes, copied from that of France, has extended its authority, as noted above, beyond simply auditing the accounts to include a scheme of general approval of expenditure obligations before payment, thus insuring that appropriations are not being overexpended by the administrative departments. During the parliamentary period, Italy maintained a Court of Accounts which was a replica of the French Cour, but with extended powers similar to those of the Belgian Cour. Under Mussolini's régime, however, the authority of this Court has gradually diminished, and its work is being delegated more and more to the Fascist Grand Council, assisted by the Voluntary Militia for National Security (*Milizia Volontaria per la Sicurezza Nazionale*). Many of the post-war states of Europe have imitated the French system of audit. While the auditing schemes of Germany and Japan resemble that of France in principle, they differ sufficiently to warrant some discussion in this connection.

The German Rechnungshof

The Rechnungshof, the Court of Audit, carried over from the Bismarckian era, was one of the most important governmental authorities under the second Reich. Thus far, it has not been changed under the Nazi régime but continues practically as established by the Weimar constitution. It is a collegial body, independent of the executive and the legislature, similar in status to the Supreme Court of the United States. Its members, consisting of a president, four directors or vice presidents, and twenty referees, are appointed for life by the President of the Reich with the approval of the Minister of Finance, —and the consent of the Reichsrat before that body was abolished by Hitler in February, 1934. These members are required to have the qualifications for judicial office or for high adminis-

trative or technical service. They are subject only to law and enjoy the same privileges as judges in regard to removal from office, retirement, and discipline.

The Rechnungshof has full authority to organize and regulate the routine of its business. It usually works in sections, consisting of at least three members. If the decision of a section is questioned by any member of the body, then a majority vote of the whole Rechnungshof is required to sustain it. A staff of about 150 auditors and accountants is attached to the Rechnungshof.

The functions of the Rechnungshof include an audit of all accounts, an examination of administrative efficiency, advice and recommendations to the Ministry, and a final report to the parliamentary body, now only the Reichstag. The audit, which is in the nature of a postaudit, embraces the legal and budgetary aspects of expenditures, the levying and collecting of taxes and other revenues, and the verification of all the administrative accounts, including those of governmental undertakings. The next most important function of the Rechnungshof is its examination of the administration to determine if it is operating economically and without superfluous offices and establishments. This examination extends to local, as well as national, authorities. The Rechnungshof, therefore, is a sort of national economy commission, with wide powers to demand information, to institute special audits, and to review all decrees and ordinances relating to finances. At the request of the Ministry or the Reichstag, the Rechnungshof will express an opinion in advance on budgetary and accounting problems, so that the authorities may proceed with the assurance that they will not later come into conflict with its decisions.

Upon the conclusion of its audit, the Rechnungshof submits its findings with respect to the departures from laws and ordinances to the Ministry, including any administrative and procedural defects which it has discovered, together with recommendations for their correction. The Ministry must take definite action on these recommendations. If the decisions of the

Ministry do not satisfy the Rechnungshof, it may then bring them, together with its recommendations, before the Reichstag in its final report. When shortages appear in the accounts, the Rechnungshof is empowered to take the necessary steps to recover the money.

The early auditing procedure of the Rechnungshof was to have the accounts, with supporting documents, sent to its main office for examination. But the great volume of business in recent years has made this procedure impossible, so it has established regional offices where the audit is performed by its agents. It has also placed its auditors in the accounting offices of the administration, thus saving the time of transporting the financial documents and greatly facilitating the audit. In determining its working procedure, the Rechnungshof endeavors to secure an adequate audit with the least personnel, expense, and time. With this in view it may, and often does, perform a partial or test audit of some accounts, and it may omit unimportant ones from the yearly audit, accepting in such cases the reports of the administrative officers.

Under normal conditions, legislative control is exercised through a review of the report of the Rechnungshof by the Reichstag. If this body finds the report on the accounts satisfactory, it discharges the Ministry from further responsibility, except in so far as the Rechnungshof may have made reservations. This constitutes the final step in establishing executive accountability for the budget. Such, at least, was the practice prior to the Nazi régime.

The Japanese Board of Audit

The Japanese constitution of 1889 created a Board of Audit, whose organization and authority were thereupon fixed by law. According to Ito, the father of the constitution, this gave the Board an independent status by placing it beyond the reach of administrative ordinances. As now constituted, it consists of a president, three chiefs of sections, and twelve inspectors, each with the general title of "inspector of accounts." The

president is named by the Emperor upon the advice of the Premier, thus bringing the Board, to this extent, within the sphere of cabinet influences. But the Board has no direct connection with the Diet. The members of the Board, like judges, are permanent officials; they may not be dismissed, transferred, or retired except by a criminal or disciplinary trial. They may not occupy other official posts in the government, or serve as members of the Diet or local assemblies.

The main function of the Board of Audit is to examine and verify each year all accounts of the central government, except those relating to the secret service. The Board also examines the accounts of corporate bodies and public or private enterprises which receive subsidies from the government. The examination covers the revenues assessed and collected, expenditures incurred and paid, and the lists of governmental property. All disbursements are checked to see that they are within the provisions of the budget law. After examining the accounts of an administrative office, the Board either certifies their correctness to the officer in charge, or, if the accounts are not in order, so informs the officer's superior or the minister in charge of the department. It may assess fines on spending officers, which only the Emperor can remit or reduce. Each fiscal year the Board is required to present to the Emperor a report of the results of its examination of the accounts, as finally settled, including such recommendations as it may think necessary on the revision of financial laws and administrative processes.

The Board of Audit determines the inspectional procedure which it follows, together with the form and proof of accounts to be submitted to it for examination. The examination is usually conducted at the office of the Board, the accounts and supporting documents being submitted by the spending agencies. But the Board sometimes arranges to examine the accounts wherever they happen to be located. It may even delegate the examination to each spending agency and accept the report thus made, if found satisfactory. The decisions of the

Board are arrived at by a majority vote of the whole body or of its divisions.

A last step in the enforcement of executive accountability for the budget is the submission to the Diet of the final accounts, as verified by the Board of Audit. The report of these accounts is prepared by the Minister of Finance and reviewed by the Board of Audit; indeed, the Board's findings in connection with its audit accompany the report. As a rule this report reaches the Diet some time between one and two years after the close of the fiscal period. In each house of the Diet there is a standing committee on final accounts which examines the report, often demanding explanations from the ministers. The report is approved first by the lower house and then by the upper house. Disapproval by the houses cannot be made the occasion for legal action against the administrative officers, but the Diet may vote a lack of confidence in the executive and send an address of criticism to the Emperor. This parliamentary review of the accounts is regarded by Japanese authorities as being quite effective in bringing the executive to feel a weighty responsibility for the proper realization of the budget.

THE POLITICAL TYPE OF AUDIT

The political type of audit is exemplified by the scheme which Soviet Russia is developing. Recently Italy also has been moving in this direction, and it is not improbable that other dictatorships may do likewise. Under the Soviet scheme, as it appears at present, the auditing, checking, and inspecting necessary to establish accountability for the execution of the budget is under the supervision of the Central Committee of the Communist Party. This Committee uses as its principal agency of audit and investigation the Rabkrin, otherwise known as the Commissariat for Workers' and Peasants' Inspection.

The Rabkrin was established in 1923 by Lenin to assist the Communist Party, as he said, in attaining its objectives. It is described in the law as the "main organ of Soviet authority concerned with carrying out all measures taken to improve the

state apparatus, to manage it properly, and to adjust the same to the final ends of socialist construction." The powers and duties of the Rabkrin, as enumerated in the law, are very extensive. This agency is authorized to make a "detailed examination of the quarterly and yearly budgets" of the Soviet and all local units of government, to analyze "the working of the same from the point of view of their financial reality and economic rationality," to give opinions on the application of state appropriations, to examine the plans of production and their execution by the economic organs, and to test these plans on the basis of "collected materials and scientific data." It is required to make an examination and appraisal of "the work of the heads and assistants of the administrative and economic organs" of the Soviet government, and to study "the causes of offenses and negligence by superior officers and agents of the state organs." In short, it can make complete "revisional-inspection investigations" of all the central, regional, and communal organs of the Soviet government.

The Rabkrin is also a governmental research agency. It is empowered to make practical and theoretical studies of the administration, to criticize its defects, and to offer "practical measures to rationalize the technique of administration, office routine, and records." It is required to work out the "most effective methods of accounting, bookkeeping, and balances"; to draft "new plans of desirable changes in the structure of state organs in order to improve their work, as well as to create simultaneously such normal working conditions as to facilitate supervision by the state."

With the backing of the Central Committee, the Rabkrin exercises certain regulatory and disciplinary powers. It can suspend the orders and activities of officials whose establishments are under examination; it can discipline officials, even dismiss them from office when judged unfit; and it can abolish institutions and agencies and reorganize administrative functions whenever deemed necessary.

It will be seen that the Rabkrin's functions range all the

way from the fundamental problems of the Soviet administration to the proper methods of bookkeeping in the smallest communal units. As a matter of fact, its authority touches practically every activity in Soviet Russia. The Rabkrin has subordinate organs in each of the so-called republics and autonomous areas, which are staffed by officers and employees sent out by the central office in Moscow. Thus the Rabkrin is the supreme fact-finding and supervisory agency of the Central Committee in seeing that the Soviet Piatiletka, the Five-Year Plan, and the budget are executed according to the wishes of the leaders of the Communist Party.

THE AMERICAN MAKESHIFT—AN AUDIT IMPROPERLY DONE AND WITHOUT REVIEW

Prior to the establishment of the national budget system in 1921, the auditing of the United States government was conducted under the Treasury Department by the Comptroller of the Treasury and the six auditors for the departments. As these officers were in the administration itself, being responsible to the Secretary of the Treasury, their auditing procedure, it was charged, was not rigidly applied under all circumstances. It was also alleged that their examination of the accounts was sometimes influenced by departmental officials. There was no independent check on their work to prove or disprove these charges.

In an attempt to correct this situation the General Accounting Office was created by the budget and accounting act of 1921. This Office took over the functions of the Comptroller of the Treasury and the six auditors, whose positions were abolished. It was placed under the direction of the Comptroller General, who, although appointed by the President, serves for a term of fifteen years and is removable only by a joint resolution of Congress or by impeachment. The General Accounting Office, therefore, is practically independent of the executive. Although its sponsors so intended, it is not, strictly speaking, a congressional agency, but rather stands as an independent es-

tablishment. Its main purpose, however, according to Wilmoughby, is "to strengthen congressional control over the administration in respect to the collection and disbursement of funds."

Since its creation the General Accounting Office has become one of the major establishments of the national government, spending for operating expenses approximately \$3,500,000 a year and employing over 2,000 persons. The members of this large force, except the officers receiving above \$5,000 a year, are selected under civil service regulations. The higher officers, however, are not always chosen on the basis of their professional qualifications, without reference to their political affiliations. In this respect the General Accounting Office makes a poor showing in comparison, for example, with the English Exchequer and Audit Department. The General Accounting Office now occupies spacious quarters in the former Pension Office Building. Its work is organized under a number of divisions, such as law, claims, audit, bookkeeping, postal, records, and personnel.

The functions of the General Accounting Office, as indicated in Chapter VIII, are principally concerned with (1) control of treasury receipts and issues, (2) settlement of claims against the government, (3) settlement of claims due the government, (4) supervision of the general accounting system of the government, and (5) making investigations for and reports to Congress on financial matters. We have noted in the preceding chapter the control of the Office over treasury receipts and issues, which is largely a routine matter. For the settlement of claims against and due the government, the Office gets its authority from the following provision of the budget and accounting act: "All claims and demands whatever by the Government of the United States or against it, and all accounts whatever in which the Government of the United States is concerned, either as debtor or creditor, shall be settled and adjusted by the General Accounting Office." Not only are all claims of every kind settled by this Office, but its settlement

is "final and conclusive upon the executive branch of the government."

In making settlement of expenditure claims, the General Accounting Office audits the vouchers and all supporting documents. This audit is, in practice, a postaudit in some instances and a preaudit in others. Under the postaudit method, the payments made by the Treasury Department and the disbursing officers are not usually settled until some time, perhaps several months, after the expenditure. When overpayments have been made, it is often difficult to effect recovery under these circumstances. Although the disbursing officers are held responsible for the payments which they make without previous authority from the Comptroller General, this gives no assurance that these payments will be found satisfactory when finally audited by the General Accounting Office. When this Office uses the preaudit method, not only is duplicate auditing avoided but final settlement is made before payment. In making its settlement of expenditure claims, the General Accounting Office usually follows the strictly legal requirements and provisions, paying little or no attention to questions of economy in the application of appropriations.

In the settlement of claims due the government, the General Accounting Office makes an audit of receipts, its authority for so doing being the provisions of the budget and accounting act already cited. The Office, in fact, attempts much more than simply an audit of collections, since it assumes authority to determine the amounts which should be collected by the government. On this score it has come in conflict with the Secretary of the Treasury. In several instances it has carried its contentions before the courts, but as yet its authority has not been definitely settled, especially with reference to internal revenue and customs receipts. It will probably be necessary for Congress to define its powers in these fields. In addition, the General Accounting Office has assumed the right to enforce the collection of claims due the government. When these claims have affected governmental officers and employees, they have

aroused a storm of protests, and cases have been taken to the courts. In a number of such instances the Court of Claims and the inferior federal courts have handed down opinions, but the Comptroller General has paid no attention to them, claiming that his independent position makes him amenable to no authority but Congress or a decision of the Supreme Court of the United States. Here again Congress will probably have to settle the matter, since judicial construction of the existing law is not likely to meet the requirements of effective fiscal management.

The General Accounting Office, as its name implies, is charged with keeping the central or controlling accounts of the government. In the preceding chapter we discussed this function, noting that it is strictly administrative in character. Incidentally, the Office has not yet produced any general accounting statements showing the condition of federal finances.

The Comptroller General is required to report to Congress at each regular session on the work of the General Accounting Office, making such recommendations as he may think advisable on the handling of the national finances. He is also required to conduct investigations and make reports when ordered by either house of Congress or by a committee of either house concerned with revenues, appropriations, or expenditures. Thus the General Accounting Office constitutes an investigational agency on fiscal matters. But Congress has not made very much use of the Office for this purpose. Most of the requests for information have come from individual congressmen, and have usually related to inconsequential matters. Recently, however, the Senate turned to the Comptroller General for a rather important investigation of the expenditures of the Federal Farm Board.

Finally, Congress does not have a committee whose business it is to review the findings and recommendations of the Comptroller General. The auditing scheme, therefore, falls short of establishing real accountability on the part of the executive and the administration for carrying out the budget as voted by

Congress. Soon after the budget system was established, the late Martin B. Madden, then chairman of the House Committee on Appropriations, observed as follows: "The House has eleven different committees whose duty it is to investigate public expenditures—one committee for each of the ten executive departments, and the eleventh for expenditures on account of public buildings. . . . These expenditure committees seldom function except when the House or Senate is controlled by one political party and the administrative branch of the government by another. Even then their investigations cannot be comprehensive. They may deal with specific and individual instances of mismanagement or maladministration, but there is no coördination of their activities or any opportunity to harmonize the broader aspects of the expenditure-investigation problem. The remedy for this situation is the abolition of the eleven committees and the creation of a single committee on public expenditures." Although these committees have since been reduced to two, a Committee on Accounts of eleven members and a Committee on Expenditures in the Executive Departments of twenty-one members, they still operate very much as before, taking practically no advantage of the staff services of the General Accounting Office. There is also a Senate Committee on Expenditures in the Executive Departments of seven members, which operates in a similar way.

This, briefly, is the American scheme of audit. It is little more than a makeshift, as we have said, since it fails in certain important respects to measure up to the standards of an auditing system designed to enforce budgetary accountability on the part of the executive. In the first place, the Comptroller General exercises financial functions primarily belonging to the executive, which have assumed more importance, if anything, than his auditing duties. He maintains, or is supposed to maintain, the general accounts of the government,—also an executive function,—which places him in the anomalous position of auditing his own accounts. He enforces his decisions upon the President and the administrative departments, not through the

direct support of Congress, as he should do, but through his authority to make final settlement of all claims for and against the government. In the second place, no congressional committee has as yet been established to review the reports and findings of the Comptroller General. Finally, no satisfactory method of contact between the financial officers of the executive, on the one hand, and the Comptroller General and Congress, on the other, has yet been provided which will insure prompt administrative action on auditing decisions and criticisms. This situation results in delay, circumvention, and even litigation by the administrative agencies when carrying out the rulings of the Comptroller General.

AN EFFECTIVE AUDITING SYSTEM FOR THE UNITED STATES

From the discussion in the earlier part of this chapter it will be observed that the essential features of parliamentary systems of audit are: (1) a qualified agency, independent of the executive, to postaudit the accounts of the administration; (2) a legislative committee to receive and review the findings of this postaudit; and (3) a regular avenue of contact between these agencies and the financial department of the executive to insure speedy administrative action on all criticisms and recommendations. There are no valid reasons why these essential features should not be applied in congressional governments, assuming, of course, proper adaptations. But before suggesting their application to the government of the United States, it may be well to examine them somewhat in detail.

The auditing agencies of parliamentary governments are of two general types: a single-headed department or agency, responsible to the legislature, as in England; or a collegiate body, judicial in character and independent of the legislature, as in France. They are generally without executive or administrative duties, such as current control of expenditures and receipts, and general account keeping. Where duties of this nature are exercised, they are either purely formal or rather insignificant as compared with the postauditing duties. The main function

of the parliamentary auditing agency, in every instance, is to review the financial operations of the executive by postauditing the various accounts of the administration, to criticize these operations whenever necessary, and to make a report thereon to the legislature. This report, experience has demonstrated, must be rendered as promptly as possible after the close of the fiscal period to which the accounts relate; otherwise, it is ineffective as a means of parliamentary control over the executive. The legislative committee to review the findings of the auditing agency is best exemplified by the English Public Accounts Committee, a parliamentary body controlled by the "opposition." In the matter of contact between the legislative committee and the financial department of the executive, the English system again affords the most direct method by requiring a responsible officer of the Treasury to sit with the Public Accounts Committee. This officer is in a position to act immediately upon the censures or suggestions of the Committee. In France and in Japan, the recommendations and criticisms of the auditing agency are not so directly handled and therefore lose much of their value.

While a court of accounts has certain advantages over a single auditor, American financial authorities are generally agreed that an officer with the status of the Comptroller General is more likely to succeed in establishing an effective auditing system in the national government of the United States. But they differ as to the functions which this officer should perform. Willoughby defends the existing functions of the Comptroller General in his volume on *The Legal Status and Functions of the General Accounting Office of the National Government*, even suggesting their extension in some instances. He sees nothing incompatible in assigning strictly executive functions, such as general accounting and current financial control, to the Comptroller General. On the contrary, he assumes (p. 17) that English practice sets a precedent for this arrangement,—which, as we have seen, is not the case at all. But others, among whom are thoughtful congressmen and public

administrators, have expressed serious doubts as to the existing functions of the Comptroller General.

It is significant, we think, that after ten years' experience with the present arrangement a definite change was proposed by the executive. Under the authority granted him by the so-called "Economy Act" of June 30, 1932, President Hoover, in a message to Congress on December 9, 1932, asked approval for a plan (see *Congressional Record*, p. 245) to transfer from the Comptroller General's Office to the Bureau of the Budget the general accounting and preauditing work of that Office, leaving with it mainly the postauditing work. He said that the budget and accounting act of 1921 had "conferred upon the General Accounting Office duties of an administrative or executive character," and that the act had been so interpreted as to permit this Office "to extend its powers and duties into the field of administration in the several departments and establishments of the government to an extent that is far beyond its primary function." He also observed that since "accounting is an essential element of effective administration" and "forms the basis of the whole estimating system of the government," it should be developed under the direction of the executive. While the placing of the general accounting system of the government under the Bureau of the Budget rather than in a division of the Treasury Department may be questioned, there is undoubtedly merit to the general proposal. Nevertheless, it was vetoed by Congress on the assumption that the Roosevelt administration could study the question and perhaps arrive at a more satisfactory solution.

On the desirability of setting up a congressional committee to review the findings from an audit of the government's accounts, there seems to be rather general agreement. The surprising thing is that Congress has done nothing about it. In commenting on the workings of the General Accounting Office about five years after its establishment, F. A. Cleveland said that while this Office had been "set up in the budget law as an independent agency of inquiry, criticism, and report," it had

"not so functioned, for the obvious reason that there is no organization in Congress to assure a real inquiry into the administration." He suggested the creation of a congressional committee, of which the chairman and a majority of the members would be selected from the party opposing that of the President, so that the committee would actually serve as a critic of the administration.

Willoughby, in his volume cited above, urged the establishment of a congressional committee on public accounts to review the reports of the Comptroller General. He argued as follows (p. 139): "The most fundamental feature of the General Accounting Office is that it is an instrumentality set up by Congress through which the latter may control the administration from the standpoint of assuring itself that there is rigid compliance with all of its orders in respect to the collection, custody, and disbursement of public funds and may obtain independent information regarding the efficiency with which the administrative services are performing their duties. The relationship between Congress and the General Accounting Office is thus that of principal and agent. This being so, Congress should provide itself with means through which it can assure itself that its agent is properly performing its duties and can take action upon the matters that are brought to its attention by such agent through its annual and other reports. Congress as a whole cannot consider the report of the Comptroller General and pass upon the recommendations contained in it. What is needed is that each house, or, possibly better still, the two houses jointly, shall create a committee on public accounts, whose duty it will be to receive the report of the Comptroller General and, acting on behalf of the two houses, subject its presentation of facts and recommendations to careful scrutiny and such further examination as it may find desirable for the purpose of determining the fidelity with which the administration has performed its duties and of bringing to the attention of Congress matters requiring its action." He goes on to say that this need has been "demonstrated by experience," and declares

that "grave issues have arisen between the General Accounting Office and the administrative services which can properly be adjusted only by Congress." Since "these issues are questions both of law and of expediency in respect to the manner in which governmental affairs shall be conducted," he maintains that it is a mistake to rely upon the courts for their settlement, inasmuch as it may happen that "the decisions arrived at while being fully justified from the standpoint of existing law will sustain practices which are counter to principles of good administration."

Suggestions have been almost totally lacking in the matter of establishing some direct contact between the financial department of the administration and the congressional agencies of audit and review, thus assuring quick action on the part of the executive in meeting criticisms and in realizing recommendations.

A General Auditing Office and Its Functions

As between the two types of auditing agencies found under parliamentary government, we believe that for the national government of the United States the single-headed department, responsible to the legislature, is preferable to the independent collegiate body, with the status of a high court. We accept, therefore, as a starting point, the existing agency, namely, the General Accounting Office headed by the Comptroller General of the United States, but with a change of title and extensive modification of functions. With respect to title, we suggest that the name should be the General Auditing Office headed by the Auditor General of the United States. The method and term of appointment of the Auditor General and the Assistant Auditor General may remain the same as at present, but satisfactory professional standing and adequate experience qualifications in the public accounting field should be demanded, comparable to those now customarily observed in the legal field in the appointment of justices to the Supreme Court of the United States. With respect to the functions of the Office, we suggest that they be confined mainly to a postaudit of all the financial

transactions and accounts of the national government and such examination as may be necessary of the accounts of subordinate units of government or semi-private agencies receiving federal subsidies. In the course of the postaudit of the national accounts, as kept in the Treasury Department or in the other administrative departments, the Office should examine not only the fidelity of the transactions but also the propriety and application of expenditures. The Office should then prepare for the congressional committee, at least annually, detailed reports of its findings with respect to each administrative department or establishment, embodying criticisms of faulty financial practices or methods and concrete suggestions for improvements.

The present functions of the Office which have to do with the final settlement and adjustment of claims for and against the government, the keeping of general accounts, and the supervision of the administrative accounting records should be transferred to the Treasury Department, as we have indicated in the preceding chapter. The Office may continue its approval of treasury receipts and issues, if exercised according to the English practice rather than by the meticulous method now employed. The function of making special investigations and reports on financial matters for Congress should not only be continued by the Office but emphasized much more than it has been in the past. Limiting the functions of the Office to those just outlined should permit the existing staff to be greatly reduced, perhaps to 15 or 20 per cent of its present number, if we are to accept the experience of other countries as at all indicative in this respect.

A Joint Congressional Committee on Public Accounts

To receive the reports of the General Auditing Office, Congress should establish a joint Committee on Public Accounts, at the same time abolishing the three existing committees on expenditures and accounts in the House and the Senate. The committee on Public Accounts should be appointed at the beginning of each congressional session; it should be limited in membership, say to fifteen, the members being selected from each

house in such manner that the chairman and a majority of the members will belong to the political party or parties in opposition to the party of the President. With a membership of this character the Committee could be counted on to act as a critic of the administration, which is the service most desired from such an agency. The Committee should be recognized as one of the most important in Congress. Only experienced and able congressmen should be selected to serve on it, and they should be largely free from other committees so as to give the work of this Committee their major attention.

The Auditor General, or his assistant, would sit with the Committee when in session, it being his duty to present and explain his findings and to answer questions. At the same time the Secretary of the Treasury, or his representative, would be required to sit with the Committee to explain and defend the financial actions of the administration, if criticized by the Auditor General. By this arrangement the President would be kept in constant touch with the decisions and criticisms of the Committee, and would, therefore, be able to take immediate action in all cases not requiring legislation. It would be the duty of the Committee to hold hearings on the findings of the Auditor General, summoning before it for examination departmental heads, administrative boards, bureau chiefs, accounting and disbursing officers, and other executive and administrative officials. At the conclusion of these hearings the Committee would report to Congress, giving its criticisms on financial methods and performances and making any suggestions it deemed appropriate either for legislative action or executive guidance.

The agencies and procedure just described would, we believe, provide Congress with a satisfactory means of checking the financial operations of the administration, of knowing whether or not its fiscal mandates were being properly carried out by the executive, and, last but not least, of enforcing accountability on the part of the President and his subordinates for the execution of the budget.

CHAPTER X

THE OUTLOOK FOR THE BUDGET IN THE UNITED STATES

"WHATEVER its merits, the American government is slow, uncertain in its action, liable to have its approaches to a solution barred to it by the courts and, apparently, incapable not merely of a long view, but of a national view, however short." Thus writes D. W. Brogan in his *Government of the People* (p. 379). Whether Americans like it or not, they must admit, upon sober reflection, that this Englishman's impression is essentially correct, at least under ordinary conditions. And in no sector of the public sphere does this tardiness and uncertainty of action, this incapacity for foresight, become more apparent than in finance, especially in making provision for and in meeting the budgetary requirements of the government.

While the development of the budget in the United States, as noted in the previous chapters, has made considerable progress during the last two or three decades, it has as yet scarcely passed beyond the initial stages. There are still certain structural weaknesses, procedural drawbacks, and official interferences, particularly in the national and state governments, which need to be corrected in order to lend greater effectiveness to the budget system and to give it a satisfactory status in the American polity. To be content merely with what has already been accomplished would be detrimental to the future growth of the system.

With this situation in mind, we undertook a study of budgetary usage and experience in the leading governments of the world. This study, the results of which are embodied in the foregoing chapters, revealed certain difficulties in the way of

budgetary development under the American form of government, and indicated methods of remedying or obviating them in some instances. It also enabled us to make many definite suggestions for improving budgetary practices in the United States. For the convenience of the reader who is interested mainly in the American scene, these suggestions are summarized below, following a brief résumé of the major handicaps involved.

HANDICAPS TO BUDGETARY DEVELOPMENT UNDER THE AMERICAN GOVERNMENT

The major handicaps to budgetary development in the United States arise principally from the constitutional and political system. They may be attributed mainly to: (1) an inflexible scheme of federal organization, which serves to set apart national and state finances; (2) unwarranted separation of powers, especially between the legislative and the executive branches; (3) bicameral legislative bodies, with cumbersome methods of procedure and the shifting of responsibility between houses of almost equal authority; and (4) frequent lack of control by the same party over both houses of the legislature and of party unity between that body and the executive, resulting in legislative inaction, deadlocks, and rejected or defeated executive proposals. From the discussion in the preceding chapters it will be observed that the parliamentary type of government, particularly the unitary English pattern, is almost entirely free of such difficulties.

The Rigid Federal Structure

There can be little doubt that budgeting in the interest of all sections of the country is greatly hampered by the rigid federal structure of the United States government, already described in Chapter II. Although this handicap has been practically overlooked up to the present time, it can no longer be disregarded. Conditions are now such that, like Banquo's ghost, it will not down.

Ordinarily the national government supervises directly only

about one-third of the total budgetary requirements of the United States, the remaining two-thirds being under the control of the state and local governments. It has practically nothing to say about the budgets of the forty-eight states and their local subdivisions, or the extent to which their governments may incur indebtedness. Each state, through improper handling of its finances, may create an embarrassing situation for the nation as a whole; yet the national government is virtually powerless to avoid such a contingency. No central machinery exists, comparable to that recently established in Australia, for coördinating to some degree the budgetary needs and required loans of the federal and state governments (see above, p. 64). These governments continue to plan their financial requirements, to levy numerous taxes, and to borrow funds, almost as if they were situated in different parts of the world rather than within a single commonwealth.

Financial practice in the United States as a whole has been described by B. P. Adarkar, a leading economist of India, in his *Principles and Problems of Federal Finance* (p. 63), as involving "a great deal of anarchy and lack of coördination. . . ." This condition, he maintains, is true in spite of the fact that the national government has broken through some of the century-old obstacles and extended its influence in state and local finances by the use of subventions and quite recently by direct grants and loans. "Double taxation, overlapping tax-jurisdictions, duplication of administrative machinery, multiplicity and variety of tax-formulas and forms, and inequality of fiscal arrangements are some of the many evils," he says, "that have made the American system of finance a mere hotchpotch of conflicting notions." He thinks that this is deplorable, inasmuch "as the physical and human resources of the United States are vast and, ordinarily, apart from these technical defects, the material for the financiers to work on is of the best. The very vastness and plenty, however, indicate the need for coördination and harmonisation in the sphere of finance."

Recent efforts to carry into effect the governmental and social policies of the Roosevelt administration serve to emphasize this

need as never before in the history of the country. The nationwide planning requisite to the realization of these policies and to the maintenance, as well, of sound public finances is now greatly curtailed by the lack of a unified outlook in budgetary matters as between the federal and state governments. While this outlook may be approached in several ways, it can no doubt be attained most expeditiously and effectively through a comprehensive plan for the coördination of federal and state finances. Such a plan would require the application of budgetary methods on a uniform basis, the integration of federal and state revenue systems, the regulation of expenditures in keeping with the nature and importance of governmental tasks, and the supervision of indebtedness in all state and local units. It would need to be formulated to meet present-day conditions which, according to S. E. Leland, "require the nationalization of political activity," and "necessitate a fiscal system adapted to a national economy." Although this plan would undoubtedly encounter constitutional and political obstacles, they would by no means be insuperable. For the execution of the plan, a national body would presumably be required. As a result of his broad study of federal finances, Adarkar suggests (p. 249) "a body either independent of, or incorporated in, the federal government. . . ." He thinks that a National Finance Commission might be instituted for such work, which would be "concerned neither with the law-administering nor with the tax-administering business, but only with the function of keeping a vigilant supervision over the financial activities of the states, giving them expert advice where necessary and making frequent readjustments in their relationship with the federal government." In the light of current conditions in the United States, the desirability of some such form of unified supervision speaks for itself and hardly calls for argument to support it.

The Separation of Powers

Again, budgeting in the national government and likewise in the state governments is handicapped, as explained in Chap-

ters II, III and IV, by the division of powers among three distinct branches—the judiciary, the legislature, and the executive. The judiciary really stands at the top of this trinity, inasmuch as it has authority to nullify both legislative acts and executive orders. This situation leads Brogan to remark (p. 34): "In all departments of American legislation, the encouragement to irresponsibility bred by judicial review is evident, the delusion that bad legislation does not matter, for if it is unconstitutional it will be nullified, if it is constitutional it cannot be really bad. Left to its own devices, the American people might learn that even if all things are lawful, all things are not expedient, but as it is they remain bound to the law." Not only is the judiciary thus enabled to set boundaries for the respective areas of authority belonging to the legislature and the executive, but it may also drive legal wedges between these two branches and so make their coöperation increasingly difficult, as has actually happened in New York State (see above, p. 91). This lack of coöperation is one of the most serious obstacles to budgetary progress in the United States.

Under ordinary circumstances, party control affords practically the only unifying force between the legislature and the executive; and even so, the habit of separation between these branches has become so firmly established that it frequently persists although both are controlled by the same political party or faction. Only under the stress and strain of major emergencies do the two branches actually work together; then this joint effort is effected through the legislature deferring temporarily to the leadership of the executive.

Such was the case during the sessions of the 73d Congress, convened between March, 1933, and July, 1934. Walter Lippmann referred to these sessions as setting a precedent on "how to make representative government work in America during great crises." Continuing, he said: "What this Congress has done is to consent to the temporary concentration of power over fiscal policy in the hands of the Executive. It gave him control of expenditures. It gave him control of monetary policy. It

gave him partial control of tariff rates. This is a radical, though temporary, change of the balance of powers within the American constitutional system. The change was effected because public opinion, reflecting itself in Congress, demanded prompt, decisive and coherent action. It is impossible to have action that is prompt, decisive and coherent when fiscal policy is worked out in detail by congressional logrolling. The pork barrel, pensions, patronage, and the tariff have been subjected to the leadership of the President."¹

But the problem that concerns us most in this connection is how to bring about the satisfactory coöperation of the legislature with the executive in handling budgetary matters during ordinary times. Some publicists feel that this relationship is not attainable under the American structure of government because of the separation of powers. Hence they suggest the substitution of a governmental structure modeled after the English parliamentary system, "in which legislative and executive powers are fused under the direction of the Cabinet, the responsibility of the Cabinet is definitely fixed, and the judiciary cannot pass on the constitutionality of laws." Other publicists, however, are of the opinion that the American system can be made to work effectively through the application of certain devices which will bring the legislature and the executive into intimate contact and place greater responsibility upon the executive for leadership in the legislative program. They also contend, and with good reason, that every effort should be put forth to make the system work by the utilization of such devices before going to another type of government which, although operating well elsewhere, may prove unsuited to the political psychology and social needs of the United States. The more important among these devices are: to give the executive the right to introduce financial and other measures in the legislature; to allow the executive the privileges of the floor to explain and defend his proposals; to permit the executive, in the case of a deadlock, to dissolve one or both houses of the legislature and to carry the issue to the electorate.

¹ "The Congress of the Crisis," New York *Herald Tribune*, June 20, 1934.

The Bicameral Legislative System

The bicameral legislative bodies in the national and state governments of the United States present certain drawbacks to budgeting which have been discussed at some length in Chapter VII. These drawbacks derive from the shifting of responsibility between the houses, the cumbersome committee arrangement under which the houses work, and the outworn methods of parliamentary procedure.

The bicameral system, which afforded a convenient means of compromise in setting up the federal organization, was justified in the state governments on other grounds, mainly as a means of permitting representation to different elements of the population. But since property qualifications for voting have now completely disappeared in the states, very little reason remains for two-chambered legislatures. There is, of course, the added deliberation on legislative measures afforded by two houses, but experience has shown that it is greatly overrated.

The establishment of a single-house legislature in each of the several states would no doubt contribute to economy, concentrate responsibility for the legislative program, and expedite legislative business. Competition between the two houses due to their members serving the same constituency, now quite common, would be avoided, and a complex committee system would be eliminated. At the same time, direct contact between the governor and the legislature in discussing budgetary matters would be greatly facilitated by a unicameral body.

In recent years attempts have been made to establish unicameral legislatures in several states, constitutional amendments having actually been submitted to popular vote in Arizona, Oklahoma, and Oregon. Although these attempts have been unsuccessful, it is not improbable that some state will soon adopt the unicameral system. Only one such move is needed to break the spell of tradition; other states will then undoubtedly follow.

But it is unlikely that the houses of Congress will be reduced in number or their powers materially changed so long as the

congressional system of government prevails in the United States. Hence it is desirable that some measures should be taken to make these houses work more harmoniously and expeditiously in the handling of legislative business, to check the shifting of responsibility between them, and to bring the executive into more direct relationship with each one. Such measures are summarized below. So long as the states retain their bicameral legislative bodies, they may also utilize these measures in handling the budget. A few states, it may be noted, have already taken steps in this direction.

Lack of Party Responsibility

The frequent lack of control by the same political party over both houses of the legislature and the prevalence of party antagonism between the executive and the legislature, especially in the states, present serious handicaps to budgeting. Situations of this character are promoted partly by the bicameral system and partly by the separation of powers. They are productive of legislative inaction and deadlocks, and they often lead to unreasonable modification or complete disregard of the executive's budgetary proposals. When this condition becomes chronic, it has a disconcerting effect upon the administration, particularly in the state governments.

In several states where the voting strength of the two major parties is about equal, it is not unusual for each house of the legislature to be controlled by a different party, a situation that often results virtually in a stalemate for a whole session at a time. Nor is it uncommon in these states for the governor to belong to one major party while the dominant groups in one or both houses of the legislature belong to the other. Political conflict in this case is almost inevitable, and the governor's authority and prestige is likely to be very much weakened as a result. Under such circumstances the legislature has at times made the important administrative departments practically independent of the governor by appointing their directing heads and by determining their budgetary requirements with-

out regard for the governor's wishes or proposals. Where this has happened, party rivalry has actually brought about a complete shift in the balance of powers under the American system. It appears, therefore, that this system can be depended upon to work as originally intended only when both the legislature and the executive belong to the same political party or faction, or when party differences are submerged by the exigencies of a crisis.

As a method of settling legislative deadlocks due to party antagonism between the houses of bicameral bodies, joint voting on questions at issue has been proposed (see the Australian practice, p. 193). But this method does not afford a solution in the case of deadlocks between the legislature and the executive. Hence it has been suggested that the executive should be permitted under such circumstances to exercise the power of dissolution over one or both houses of the legislature. No doubt there would also be times when this step would not provide a way out, owing to the independent status of the executive and the legislature under the American system. To meet this situation in the state governments, short of resorting to the adoption of the parliamentary plan, it has been suggested that the legislature (reduced to a single house) choose a state manager to conduct the various services of the administration,—such manager to be selected on the basis of technical qualifications and experience for an indefinite term of office. Under this proposal the governor would continue to be popularly elected, but would act mainly as the political and ceremonial head of the state government and serve as the presiding officer of the legislature.

SUGGESTIONS FOR IMPROVING BUDGETARY METHODS IN THE UNITED STATES

Our suggestions for improving budgetary methods and practices in the United States, as set forth in the previous chapters, may be summarized under six main headings, as follows:

- (1) provision for extending the authority of the executive in

the formulation and execution of the budget; (2) establishment of means of coöperation between the executive and the legislature in budget making; (3) readjustment of legislative organization and procedure for handling the budget; (4) improvement of the form and set-up of the budget document and a closer tie-in of the self-supporting public enterprises with the general budget; (5) financial reorganization in the administration to enable the executive to control the carrying out of the budget; and (6) installation of the audit and review necessary to legislative enforcement of executive accountability for the budget.

Extension of Executive Authority in Budgeting

Although, as L. D. White puts it, "executive leadership is coming more and more to be the fixed pattern of governmental action," there are still many desirable steps which need to be taken in this direction. Greater budgetary authority for the executive is undoubtedly one of these. In Chapter III (p. 84) we discussed the limited authority now exercised by the executive in the preparation of a financial plan for the consideration of the legislature, and indicated that the executive's powers may be greatly extended in this respect without in any way doing violence to the legislature's prerogatives under the American system. The necessary steps in formulating the budget and the staff assistance requisite to this work are described in the first part of Chapter VI. Special attention is also given in this chapter to improved methods of estimating expenditures and revenues (pp. 174-179).

We have suggested that the executive's authority in carrying out the budget should not be restricted, as it is now, with respect to financial control over the administrative departments and agencies of the government. These restrictions are summarized in Chapter III (pp. 97-99) and treated more at length in Chapter VIII (pp. 244-250). In order to confer upon the executive the authority which effective budgetary control requires, it is proposed that appropriations should be made in lump-sum amounts rather than in segregated items; that the administra-

tive officers should not be permitted to spend these appropriations without the approval of the executive; and that this approval should be obtained on the basis of monthly or quarterly programs of work prepared by such officers. It is also proposed that during the fiscal year comparison between income and outgo, actual and prospective, should be made at frequent intervals, and that the executive should take steps to bring them into line with each other whenever the budgetary balance appears to be threatened.

Executive-Legislative Coöperation in Budget Making

Notwithstanding the obstacles already noted, it is believed that closer coöperation than now exists, particularly in budgetary matters, can be established between the executive and the legislature in the national and state governments. One method of bringing about this relationship is to give the executive and his principal officers seats in the legislature, with the privileges of the floor but without the right to vote (see above, p. 106). This arrangement would require the executive, or his chief finance officer, to explain the budgetary proposals in open session and to defend them when attacked by critical legislators. It would also act as a spur to executive initiative, as well as a much-needed stimulant to public interest in legislative debates (p. 199). Although provisions for such arrangement, in part at least, are contained in the budget amendments of Maryland and New York, the legislatures of these states have deliberately refused to put them into effect.

In budget making, the legislature should recognize the executive's financial plan as the necessary starting point for its work. It should not attempt to produce through its committees a rival or substitute plan of its own. Legislative consideration should be clearly focused on the executive's budget, and legislative changes should be confined to its proposals, viewed in their broad outlines (p. 101). Hence restrictions should be placed upon the consideration and passage of special appropriation bills introduced by members of the legislature (p. 213). The executive veto, of doubtful value at best, cannot be relied upon

to remedy the effects of the legislative action which has run riot (pp. 93 and 215).

Readjustment of Legislative Organization and Procedure

As noted above, the adoption of the unicameral legislature in the several states would simplify the committee arrangement and improve the procedure for handling the budget. Until this happens, it would be to the advantage of the state legislatures in every instance to consolidate the committees having charge of budgetary matters into one joint committee which would consider all phases of the budget for both houses. It would be helpful, too, for the governor, or his chief finance officer, to sit with this committee while it is discussing the budget.

In the Congress of the United States, it would seem advisable to consolidate the committees of the two houses now dealing with budgetary matters so that one committee in each house would handle both the income and the expenditure sides of the budget (p. 196). Special attention might also be given to the feasibility of establishing a joint committee on the budget, thus eliminating the duplicate hearings now held on the estimates and producing in the end one report for the consideration of both houses.

To remedy some of the abuses growing out of the standing-committee system of American legislative bodies, the use of committee of the whole has been suggested. With the executive present on the legislative floor, such procedure would make it possible to stage a genuine discussion of the budget,—one that would not fail to attract public attention (p. 205). At the close of the legislative session, full publicity should be given to the final action of the legislature on the executive's budgetary proposals through the issuance to the press of a statement supported by a balanced budget summary (p. 215).

The General Budget and the Self-Supporting Public Enterprises

The budget documents of the national government and of most state and local governments may be greatly improved as

to summarization, contents, and arrangement (pp. 131-149). The budget bills, constituting an essential part of the budget document, should not be overlooked or lightly regarded (pp. 149-152). The balancing of the budget, a matter of first magnitude in the United States today, is discussed in Chapter V (pp. 114-125).

Many enterprises of a self-supporting character are now being operated under the supervision of the national, state, and local governments of the United States. In nearly every instance the budgetary requirements of such enterprises are being handled unsatisfactorily from the standpoint of the general budget of the governmental unit concerned. Sometimes these requirements are included in gross amounts in this budget, thus inflating unduly both income and outgo; more often, however, they are altogether omitted, and hence escape whatever control is exercised through the regular budgetary process. In lieu of these methods it is suggested in Chapter V that each self-supporting enterprise should have its budgetary requirements definitely related to the general budget by the use of an annexed or subsidiary budget (pp. 152-163). The latter would be balanced in every instance and the net result so obtained carried into the summary of the general budget. Such arrangement would enable the enterprise to operate financially as a self-contained unit, with its current requirements and necessary reserves definitely segregated from the ordinary operating departments of the government; at the same time, the finances of the enterprise would not be completely detached from the general budget and from the customary oversight exercised by the executive and the legislature in budgetary matters.

Financial Reorganization Necessary to Executive Control

In Chapter VIII we have shown how necessary it is that the executive should have suitable financial machinery and methods, not to mention adequate personnel, in carrying out the budget. We have suggested the need in the national government for further centralization of financial administration

in the Treasury Department (pp. 237-244). The controlling and accounting functions now exercised by the General Accounting Office, we believe, should be transferred to the Treasury Department, and the work of this Department should be rearranged in certain respects (p. 242). Some important steps in this direction have already been undertaken by the Roosevelt administration, principally in establishing the Division of Disbursement and the Procurement Division. Financial reorganization of this character has advanced far enough in some of the state governments to assure its practicability as applied to the national government (p. 243).

By virtue of recent emergency legislation, the President has authorized the Bureau of the Budget to allocate the appropriations to the several departments and establishments on a periodic basis. This procedure should be made permanent, inasmuch as the experience of certain states has demonstrated that it is an effective method of current budgetary control (p. 249). Steps have recently been taken by the Division of Bookkeeping and Warrants to ascertain the obligations and encumbrances against appropriations, an important factor in budgetary supervision. This development suggests the feasibility of establishing a central accounting system in the Treasury Department, operating on an accrual, or modified accrual, basis, thereby greatly improving the existing facilities for financial control and reporting (p. 258).

Legislative Enforcement of Accountability on the Part of the Executive

The enforcement of accountability on the part of the executive for the realization of the budget is an important rôle of the legislature which is now practically neglected in the United States (see above, pp. 110-113). In the national government and in nearly all the state governments, the methods employed to enforce accountability at the present time are largely make-shifts—audits improperly performed and without legislative review (pp. 285-293).

To remedy this situation in the national government, we

suggest that the existing General Accounting Office should be reorganized into a General Auditing Office, headed by an Auditor General responsible to Congress (p. 294). This Office would then be concerned mainly with postauditing the accounts and records kept by the Treasury Department and by the various departments and establishments. It would also serve as an investigational agency for Congress on all financial matters. At least once a year it would submit a report to Congress embodying its findings on the postaudits, its criticisms of faulty financial procedures, and its recommendations for improvements. To consider this report we suggest that Congress should create a joint Committee on Public Accounts, composed of not more than fifteen members, with the chairman and a majority of the members selected from the party or parties in opposition to that of the President (p. 295). This step would provide a critical body, now wholly lacking, to review the financial operations of the government, to censure improper practices or administrative abuses, and to recommend suitable action thereon to Congress.

* * * * *

In conclusion, may we express the hope that the foregoing pages will contribute in a modest way to a better understanding of budgetary practices in the United States, and perhaps aid in bringing these practices abreast with those of other leading countries. To public officials who think that satisfactory progress is now being made in this direction and who do not see the need for any added effort, we would recall the Queen's remarks to Alice in Lewis Carroll's familiar classic, *Through the Looking-Glass*.

"Well, in *our* country," said Alice, still panting a little, "you'd generally get to somewhere else—if you ran very fast for a long time, as we've been doing."

"A slow sort of country!" said the Queen. "Now, *here*, you see, it takes all the running *you* can do, to keep in the same place. If you want to get somewhere else, you must run at least twice as fast as that!"

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